



**“CEAT Limited
Q1 FY2021 Earnings Conference Call”**

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Moderator: Ladies and gentlemen good day and welcome to the CEAT Limited Q1 FY2021 Earnings Conference Call hosted by ICICI Securities. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass. Thank you and over to you Sir!

Nishant Vass: Thanks Aisha. Good day everyone and thanks for joining us today for the call. From the management side we are represented by Mr. Anant Goenka – Managing Director, and Mr. Kumar Subbiah – Chief Financial Officer. Now I would like to hand over the call to Anant for his initial remarks. Over to you Sir!

Anant Goenka: Thank you Nishant. Good afternoon everyone and a very warm welcome to CEAT’s Q1 FY2021 Earnings Call and thank you all for joining us today. As Nishant said I am Anant Goenka and I have with us on call our CFO, Kumar Subbiah.

We hope that all of you have been safe and healthy during these challenging times. These are completely uncharted territories in which government authorities and companies globally are navigating with utmost caution. With respect to our Q1 financial performance as you know the entire month of April was a washout. As we progressed further into the quarter, we saw replacement demand pickup quite well as the lockdown was removed in a phased manner. On a standalone basis our revenue for the full quarter stood at 1067 Crores, a year-on-year decline of 37.4%. The entire decline was on account of volumes as net realization was at similar levels compared to the same period last year. On a quarter-on-quarter basis we saw a decline of about 30% and this too primarily driven due to volumes. As our OEM and export markets struggled, a strong bounce back in the replacement side helped us arrest this volume decline.

Within the replacement market we saw a good traction on our farm and truck radial products, both of which registered a healthy volume growth year-on-year. Towards the latter half of Q1 we also started to see a pickup in the two-wheeler and passenger car segments, which also is now showing very strong demand. Our raw material cost on a per KG basis came off by about 6% year-on-year basis. We have been able to control our cost very judiciously that helped deliver an EBITDA margin of 9.3% despite substantial negative operating leverage. We have ended the quarter with a standalone loss of 15 crores.

Over the last quarter we have focused on a few key areas; the first being caring for our people to ensure the safety of everyone around whether our employees, our customers, our suppliers or channel partners. In our factories we maintain social distancing, sanitization and ensure that our people are safe. For our office space we continue to work in a work from home basis and to keep people engaged, we focused on various initiatives such as ramping up our L&OD practices, health counseling, fitness training, yoga and other areas to keep everyone engaged.

As a result of our consistent efforts over the last year to focus on our people we were also recognized as the top 35 best places to work by the great place to work institute.

The other area we worked on was on customer, I'd say that here we really started providing doorstep fitment of tyres and other associated services that our customers would need. We made sure availability of products for our dealers as well as for all our customers, so our supply chain was extremely agile in making sure availability of material was done smoothly for our customer. We also relaxed our channel policies that were there to ensure everyone was treated fairly. So that the impact of the slowdown is not experienced by our partners as well. Apart from tyres our outlets now also provide masks and sanitization kits as well. We have also been contributing very actively on the CSR front under the RPG Foundation umbrella. Since the onset of the lockdown we have distributed more than 5 lakh meals from our plant locations, we have sanitized more than 10000 trucks to ensure driver safety, we have provided Corona testing booths to various hospitals and municipalities across the country, we have also co-developed a low cost ventilator and are now in the process of supplying it to various isolation centers and hospitals.

We worked with our channel partners to provide them with health counseling, fitness training and helping them in any ways that they need. This has held us in good stead during difficult times with our channel partners as well. Our replacement demand is picking up; all our plants are now operational and are currently running at near pre-COVID levels to meet demand.

Our supply chain team has ensured timely availability of our products by adopting dynamic fulfillment model they have been able to leverage our extensive distribution network better cater to rural demand in the current scenario. To manage the uncertainty ahead we will continue to exercise strong cost control and utilize our cost or expenses very judiciously. We have constituted specific teams tasked with identified pockets of expenses, which can be cut and also come up with new ideas to generate saving.

OEM models that were slated for Q1 launch were pushed back to later parts of the year, but our inroads into OEMs continued to see improvements last quarter. We have got a number of new RFQs in the two-wheeler and in PCR areas. While the OE segment has been facing some headwinds we expect some recovery going forward. We have also started to explore new digital avenues to continue to engage with our customers, stakeholders and many ways in terms of how do we utilize digital to bring down our cost as well. So I think the overall efforts that have been put in by our management in these times have been absolutely incredible, I feel very proud of the efforts and work that have been put in and I feel we are very confident to bounce back well after this crisis comes to an end. With this I will hand over the call to Kumar Subbiah.

Kumar Subbiah:

Thank you Anant. Good afternoon ladies and gentlemen and thank you for joining us on our Q1 earnings call. I will share some further financial data points with you post which we can have a Q&A.

Let me start with revenue. Our consolidated revenue for the quarter stood at Rs.1120 Crores a decline of about 36% versus the same quarter of last year and about 28.8% over previous quarter. Our standalone revenue for the quarter stood at Rs.1068 Crores and the decline was in line with the consolidated revenues as explained now. The revenue led decline was primarily on account of volume decline arising out of lockdown.

Let me give you some flavor of gross margin. Our consolidated gross margin for the quarter was 40.3%; we have marginal expansion of about 70 basis points over the same period of last year and a reduction of about 530 basis points. Here I would like to clarify that movement in the finished goods and the unfinished goods between the two given periods would have an impact in the way gross margin is calculated and reported. So during the quarter our consolidated finished goods inventory came down by 212 Crores compared to an increase of about 43 Crores in the previous quarter, which means we are talking about a difference of about 255 Crores. As you are all aware that cost of goods sold shown in our profit and loss account includes the movement in finished goods. As the valuation of finished goods movement include nonmaterial cost like direct manufacturing cost, direct distribution cost, the movement in finished goods shown as cost of goods sold in our profit and loss account also include the nonmaterial portion. It excludes the impact of nonmaterial cost the gross margin for Q1 has been maintained at the same level as the previous quarter; however, any movement in gross margin has no impact on our EBITDA margin or profit as this is more of reporting between one and other.

I will now briefly explain our progress in cash flow and working capital. During the quarter there was immense focus on cash flow and we maximize our cash generations through better receivables and also utilize the cash in a very judicious way, we had put in a daily cash flow management process and also planned our cash outflows for the week and for the month with the same amount of record. We ensured timely payments to all MSME vendors, our employees, discharge all our statutory liabilities on time, interest cost and all payments to all the critical vendors. As the replacement demand picked up during the quarter our cash collections also improved significantly thanks to our effort by our sales team that helped in managing our cash flows even better during the quarter. We continue to manage our working capital judiciously and also focused to ensure that there is enough liquidity through working capital and long-term arrangements with banks to be utilized as and when needed. We maintained adequate liquidity throughout the quarter to ensure that all business requirements are fully met. We are happy to inform you that we did not avail any moratorium concession during the quarter both for our finished good portion of the debt as well as interest portion of the debt and discharge all the liabilities on time. As we got our operational expenses and EBITDA, we exercise tight control during the quarter on all our costs, we looked at our cost on 0bps basis that helped us to contain not only our discretionary cost but also our nondiscretionary cost and we maintain it at absolute minimum. As a result of the above and various initiatives our consolidated other expenses declined by almost 50% year-on-year, this also helped us in delivering reasonable EBITDA margins in the quarter despite having negative operating leverage.

Our consolidated EBITDA for the quarter stood at Rs.105 Crores a margin of about 9.4%, a marginal contraction of about 40 basis points over the same quarter of last year. Our post commissioning of our Chennai manufacturing facility in Q4 of our previous financial year our consolidated depreciation in interest cost also went up by about 5 Crores and 8 Crores to reach 79 Crores and 49 Crores respectively.

Next I am going to talk about some exceptional expenses. During the quarter our consolidated profit was impacted by exceptional cost of about 22 Crores most of them are relating to COVID related operations that includes retention charges that we had incurred at port, second the interest cost that we would have capitalized in the normal course but that has not been capitalized because our plant was idle. Also our contract labor cost that we had incurred despite the fact that they were not carrying out any work. After adjusting this exceptional cost of 22 Crores our post tax loss for the quarter on a consolidated basis was about 35 Crores and our standalone loss for the quarter was 14.6 Crores.

Let me briefly touch upon our capital expenditure and debt for the quarter. As mentioned during the last quarter we try to defer all our capital expenditure during the quarter, our actual capital expenditure for the quarter was about 105 Crores largely relating to capital equipment supply in the previous financial year for which the payment had to be made. Our efforts in rationalizing cost, managing working capital efficiency and deferring capex helped us to contain our debt levels. Our gross debt at the end of the quarter was about 1998 Crores an increase of about 70 Crores versus previous quarter; however, if we adjust for the increase in our bank balances our net debt actually came down by about 70 Crores during Q4, this was on account of improved and better cash flow management that we did during the quarter. At the end of the quarter our consolidated gross debt to equity ratio remained healthy at 0.69 and standalone continue to remain healthy at 0.59. For the balance part of the year we expect our capital expenditure on a standalone basis to be in the range of about 500 to 600 Crores and we also expect to spend about 100 Crores on our CSTL operations and the specialty business operations, and the last point on regarding merger of CSTL with CEAT. The NCLT has approved the merger of CEAT with CSTL in the month of May. Now we are awaiting a formal receipt of certified copy from the NCLT on receipt of the same we will carry out all the formalities to ensure smooth merger. With that now let us open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir you mentioned that your realizations remain flat YoY is it despite the fact that OEM would have declined much sharply so your sales mix replacement share would have gone up despite that we have not seen any change in realizations YoY?

Kumar Subbiah: There has been realization per KG this quarter there was a marginal improvement in terms of percentage our improvement was to the tune of about 3% to 4% in terms of overall realization per KG, so there has been an improvement reflecting the improvement in mix.

- Ashutosh Tiwari:** So this is YoY basically?
- Kumar Subbiah:** Q1 versus Q4, Q1 versus last year's Q1 also there is an improvement of about 1.5%.
- Ashutosh Tiwari:** Demand picked up well after the lockdown got lifted so how is the things now in terms of retail sales are they still sustaining at the higher levels like the pickup that we saw in June and all?
- Kumar Subbiah:** Yes, currently things are still positive, I say that some amount of inventory and channels are doing possibly is happening, rural economy continues to be very buoyant with a good monsoon, good past crop that has come in so between farm and two-wheeler I think both these segments are particularly strong during this period, so replacement segment has been strong better than we expected in the months of June and continuing into July.
- Ashutosh Tiwari:** Even truck is doing well right now at retail level obviously there is a filling in the channel because stocks would have been lower with dealers at June end so but at retail level also the truck segment demand is still holding up?
- Kumar Subbiah:** Yes, so across all categories fortunately the replacement segment is quite buoyant at this point of time.
- Ashutosh Tiwari:** Lastly it is difficult to analyze the numbers because of this big change in the stock that we have from Q4 to Q1, but can we highlight some of the initiative that you have taken in terms of cutting the other expenses this quarter obviously is understated because of change in stock, but on a equal-to-equal basis what kind of cut we have taken and what kind of that can sustain going ahead?
- Kumar Subbiah:** Immediately of course when we found that production and supplies were at 0 levels we largely flows all costs that were there except for whatever we really had to make a payment for, so cost came down quite substantially by about 40% to 50% levels. We of course continue to incur employee cost and other fixed cost that we incurred so I say that post the lockdown period maybe around May, June we immediately started to work on structural cost reduction initiatives, now these are initiatives that will start bearing fruit have started in a certain way now, but a lot of it are longer-term initiatives, which will take maybe three to six months time further, so I would say what is sustainable maybe about 15% or so of our cost is what we are aiming to reduce and for it to take effect it will slowly come over a period of the next say three to six months.
- Ashutosh Tiwari:** Can you share the areas where we have cut this cost basically?
- Kumar Subbiah:** Initially of course it was everything, if you are looking at Q1 numbers we brought advertising levels to 0 kind of levels, any kind of discretionary cost that we could incur even though there were good costs we had to cut it down because we were very uncertain about how the future will hold, now the things have come back to normal levels of course these costs will start going back up to close to normal levels, but as I said we are working on cost to bring it down. Now what we

will bring down will be various kinds of opex, any wastages that we are incurring, we are refashioning ways of doing business fundamentally and a lot of learnings are coming in reduction in power cost, utility cost in the factories, consultancy cost for example, so any kind of cost that we can incur we are looking at each and every element supply chain cost network redesign I think all of these areas that we are working on.

Ashutosh Tiwari: Okay thank you I will join back the queue.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Continuing on the cost side so this 15% cost savings, which you are talking of this is primarily on the fixed cost including staff or this also includes variable cost as well?

Kumar Subbiah: This will be both fixed and variable primarily as much as possible on the fixed side.

Jinesh Gandhi: Second question pertains to the cost that you indicated 6% YoY decline in RM cost given that where crude prices are and natural rubber prices are do you expect further savings on this in second quarter and second half or this is primarily largely reflection of the cost currently?

Anant Goenka: Crude prices came down largely in the month of April and May so the purchases that were done around that point of time will start reflecting in Q2 so to that extent there is still an opportunity for reduction in raw material cost, some of that has been offset by rupee depreciation as well, but if you look at natural rubber while it did come down from about Rs.135 per kg to about Rs.115 per kg it has gone back up to about Rs.132 per kg as we speak, so some benefits of the kind of drop and going backup so the drop we will see so there will be an overall little bit of reduction we expect in Q2 Kumar anything you would like to add?

Kumar Subbiah: No, Anant you have covered it. So Q2 we expect RM cost lower than Q1 because Q1 we also carried some inventory from Q4 both in finished goods as well as in raw materials, so we expect the benefit of some part we realize in Q1 some additional portion as Anant mentioned we will get it in Q2.

Jinesh Gandhi: Kumar you mentioned about gross margins were stable on QoQ basis adjusting for the nonmaterial cost missing ideally should not gross margins have improved materially because of the mix change and the RM cost decline and what I am missing over here?

Kumar Subbiah: See the finished goods movement is substantial in Q1 that is why I mentioned 212 Crores...

Jinesh Gandhi: Gross margin on if we see on per KG basis would that have improved?

Kumar Subbiah: Gross margin per KG in Q1 versus Q4 of last quarter has improved.

Jinesh Gandhi: How much?

- Kumar Subbiah:** That information I will share, okay largely arising out of better mix replacement share was more in Q1, second thing partly on account of little lower raw material cost both helped in terms of improving rupees per KG benefit I think about 1% or 2% approximately would have been the impact of it.
- Jinesh Gandhi:** Third question pertains to CSTL merger you are confident that it will be happening in FY2021 so what do you see that impact on the tax rate for FY2021 what should we factor in for FY2021 tax rate at consolidated level?
- Kumar Subbiah:** See we need to understand this better, we need little more time, we still applied higher rate of tax in last year we did not go for a lower rate of tax option because we have some MAT balance so the impact of it we are still ascertaining, the impact also depends on whether we are moving to a lower rate of tax or we continue with a higher rate of tax we need to complete that exercise so we are unable to share the detail on this call, but we are working on it.
- Jinesh Gandhi:** But logically considering the accumulated loss level in CSTL tax rate even if we continue with the higher tax rate FY2021 effective tax rate should be lower is that directionally correct?
- Kumar Subbiah:** You are directionally right.
- Jinesh Gandhi:** Got it, thanks, I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir my first question is when the replacement demand you indicated that it has been good, so if you can just highlight what has been the activity in June and July on YoY basis is there a sharp growth because of pent up demand that we are seeing how do we look at that?
- Kumar Subbiah:** Replacement demand as you said yes June has bounced back quite well, as I said the rural economy has been very strong relative or nearly across categories we saw a good uptake, if you were to look in the month of May a lot of urban India had not open and therefore passenger car sales was affected, but even that started to see good demand in the month of June and continued into July, so I say at an overall level on a year-on-year basis replacement was at strong positive territory in the month of June as well as July.
- Chirag Shah:** Based on the understanding we would be having can it continue for another two, three months at least?
- Kumar Subbiah:** That is a little difficult to predict, to me I think the macroeconomic fundamentals are not supportive of a very strong demand in general maybe replacement of course will be least affected versus the other, but even there is no justification that replacement should show substantial growth for the rest of the year, so I think it will slowdown when that will happen and that is why I feel the demand is primarily rural impact, channel filling is the second part of it and the third is

could be that it is a supply gain with various lockdowns of competitors who has been able to provide and sell at full capacity in the best way possible that competitive impact will also be there because the entire supply side was very uncertain all through this quarter, I think if these things stabilizing as we speak I think demand should come down in the replacement segment, now when it will come down is the big question, we have seen a slight dip towards the latter half of June, anyway in latter half of July and if we were to look at July, August these are the weakest sales months in the year monsoon is relatively weak so I think at an overall basis I would say a slowdown can come in maybe middle or a slight negative trend in August or so.

Chirag Shah: Second question was on your capacity, today at what level of capacity you are at can you produce at the levels you were earlier or are there any bottlenecks still there at your end?

Kumar Subbiah: No, in terms of capability to produce we are nearly there at near COVID level kind of productions, most of our plants are fully operational and I would say that we would be at a very strong level I think our ramp up has been very quick across all our factories.

Chirag Shah: Is there any major shift from that?

Kumar Subbiah: Marginally so in some cases in our outsourcing plants there are some migrant workers that are there, so there, there is a little bit of continuous churn, people come in and people leave that does not let us reach our full capacity, but that is in only one of our factories in a way rest of it is largely quite okay.

Chirag Shah: Just a clarification on taxation, will there be benefits of the losses of the subsidiary that we are emerging?

Kumar Subbiah: On the Companies Act yes, under Income Tax Act depends, so income tax depreciation would be higher in the current year depending on the overall performance, but Companies Act effective tax rate considers the benefit so therefore under Companies Act the ETR could come down because of that subsidiary.

Chirag Shah: On the capex and the cash flow side what is the right segment to make that free cash flow wise will be at least neutral going ahead at least for the next two to three years and we can tell actually free cash flow positive if things normalize the last part of capex cycle that is largely behind would be that be a right segment?

Kumar Subbiah: Not sure out of 3500 Crores of our planned capex so far we have spend a little lower 2250 Crores so balance money and plus our CEAT specialty business also needs cash for expansion and we indicated about 100 Crores of capex we expect for the current year CSTL, so it depends on combination what we are going to spend this year, next year, but however the absolute capex is likely to come down from here onwards because the large amount of that if you look at last two years on an average we spend over 1000 Crores so in the coming years it may not be of that magnitude so therefore that should benefit in terms of the incremental debt that you would see

even if it is not free cash flow it would be lower compared to the previous two years we would still like to wait for a quarter or two for the business to stabilize before we able to respond to you whether you would be free cash flow positive or not.

Moderator: Thank you. Chirag we would request you to place come back in the question queue. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: My first question is on the specialty business what is the total capex you have spend up till now and how much will you spend and how much do you envisage to spend in 2022 basically I am looking at cash burn plus the capex?

Anant Goenka: If you have any other question can you ask so let me know by the time the next question is answered?

Hitesh Goel: Also on the profitability I understand the absorption costing, which has happened in this quarter right so it is not comparable, but what should be the endeavor from either on gross profit per KG or EBITDA per KG because you have actually been around Rs.20 to Rs.22 on our gross EBITDA per KG kind of levels and similarly have reported in this quarter can we see this going up given the raw material cost outlook is lower how should we look at this trend?

Anant Goenka Sorry which metric is this?

Hitesh Goel: EBITDA per KG so basically how your model are on a per KG basis right on RM cost basis so I am just looking at either gross profit per KG if you can give some guidance or on EBITDA per KG how should we look at that metric?

Anant Goenka: I think one is that we are seeing a favorable category mix in the near-term, which may turn back to normal levels towards quarter maybe Q3, Q4, but clearly replacement sales is higher, on the other hand we are also seeing strong sales in farm segments currently at least for this quarter truck has been also quite positive so some of these areas on the category mix perspective it has been a little bit adverse because passenger car and two-wheeler started to pickup in the latter half this is for Q1 particularly. So net-net, net realization has been just marginally positive in Q1, in my view with OE and exports also picking up a little bit from Q2 the replacement mix will become adverse so net-net I think net realization should not undergo any major change going forward. I also think that raw material will soften a little bit so I think at a gross margin level things could get a little bit better going forward. Going on to say a longer-term point of view I do not see a major change as such happening, we are continuously working towards increasing our two-wheeler and passenger car sales to our Chennai, etc., ramps up margins, we are focusing on increasing in sales, etc., but those are larger longer-term initiatives, which will improve our margins as well, but near-term we have not seen any major change happening, there will be some mix changes that will happen, which are quite high for the shorter-term.

- Hitesh Goel:** Why I asked this is actually because most of the capex is spend, but if I look at the ROE or ROCE trends for the next two, three years will remain quite weak because of the heavy capex we have done and the margin improvement is not substantial when can we see a double digit kind of ROCE or ROE for the company?
- Anant Goenka:** I think currently we are in investment sales, but the key is I think we need to see growth coming in and unfortunately with all of this happening growth has not come in, so I think more than even margins I think we need to look at high growth levels, which will come in, in my view not before Q4 because of the current situation maybe from Q4 and Q1 of next year we should start going back to high growth levels.
- Hitesh Goel:** If you can answer whenever you look at on specialty tyre portion?
- Anant Goenka:** On specialty approximately we would have done about 350 Crores to 400 Crores capex has been done, we will be doing another 100 Crores a little bit up to 100 Crores in the cost of the rest of this year.
- Hitesh Goel:** What is the cash burn in this business?
- Kumar Subbiah:** For specialty we planned about 450 to 500 Crores for the next expansion and out of that if you spend this 100 this year by end of the year we would have spend about 150, approximately at PBT level specialty is now EBITDA positive and interest cost is still there, which we are not able to fully absorb at this point in time, our PBT level specialty is about 40 Crores kind of a negative last year approximately little lower 40 Crores at PBT level, half of it would have been cash burn that is the way I would say because we were operating at 25% capacity level as you know capacity utilization has moved up our cash burn should come down and we should be cash breaking even soon.
- Hitesh Goel:** Great Sir thank you.
- Moderator:** Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.
- Siddhartha Bera:** Sir first again on the demand side you have indicated that July replacement also was growing so any colour on the segment wise trends how are they in the two-wheeler or truck and bus side that would be really helpful?
- Anant Goenka:** If you were to look at say post lockdown the commercial vehicle and farm segments were looking very strong in part also if you look at the lockdown opening you would have to say people would not have channel relationships very often a distributor or a dealer can go in and open your shutter if he knows an existing customer office needs truck tyres, in the case of passenger car tyres very often if the shutters are closed and the shops are closed the tyre does not undergo any change in that sense so in the month of May that is what was largely happening, also urban India was largely closed so May was more where we saw high commercial or relatively

higher commercial vehicle and farm savings. Going on towards June we started to see a good increase on the two-wheeler side and as I said passenger car side and commercial vehicle continue to be strong. On the truck radial side particularly we saw good demand products that we launched over the course of the last six, eight months time has also yielded good results, the feedback from our customers has been very strong, we had added a number of fleets and new customers and dealers as well so with all of that we are quite optimistic even on truck radial demand. This trend has largely continued into July as well, but to see this kind of increase in the replacement segment I think it is not very normal as I shared and as I said replacement will start seeing a relatively some amount of relative slowdown as we go forward. On the other hand I think OEM will start seeing increase all the way until June there were supply chain issues, demand issues particularly in the OE commercial vehicle side we have already seen about two-wheelers picking up first, passenger segment also the OEMs are quite optimistic about reaching 70%, 80% kind of demand levels whereas say until June we were at substantially lower level and the export is also seeing gradual increase on a month-on-month basis. So I think OEM and exports will start seeing some increase in July, August, and September whereas replacement may taper down a little bit towards the latter half of the quarter.

- Siddharth Bera:** Got it Sir, thanks for the detailed response. On the capex side in the last call I think we had indicated that this year we might see near about 550 odd Crores of capex so what is the total number for this year, we have done 100 Crores and we are saying that we will have around 500 Crores, 600 Crores more so basically would it be right to say that about 800 Crores in the standalone and 100 in the CSTL so about 900 odd Crores for this year?
- Anant Goenka:** No we have brought down that number so in the last quarter also we had shared that our capex will be about 500 to 600 Crores for CEAT standalone and about 100 Crores in CSTL in CEAT Specialty Tyres so these are the two we say approximately 550 plus 100 650 is what we expected during the year.
- Kumar Subbiah:** Just one thing, I just want to clarify that 100 Crores that we have already spent in Q1 is part of that 500 to 600 Crores.
- Siddharth Bera:** Will it be fair to estimate that out of the 22 billion and with 7 billion more this year and next year will also continue to remain in the same range 7 billion to 8 billion?
- Anant Goenka:** Yes, Kumar any view on that, I think similar right?
- Kumar Subbiah:** Yes it will be similar, it will be in that range similar but I think the share of CSTL could be more next year but it should be at similar level.
- Anant Goenka:** These other capexes will also depend on how the demand scenario, etc., pans out as well.
- Kumar Subbiah:** Okay Sir thanks a lot.

- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** Just to continue on the previous topic, from a holistic perspective wanted to understand that what is contributing 35% of your business which will be substantial, if we look at OEM truck sales which are down almost 80%, 90% and on a replacement perspective most of the fleets are operating at sub 50% if not sub 40% so if you can look on the demand outlook for truck tyres only truck tyres by OEM it mean only trucks from our next three to six months perspective from our replacement and OEM perspective so how pickup in OEM truck demand you are the best person to experience that if at all that is helpful?
- Anant Goenka:** On the OEM side it has been a very weak demand as you said it has been at about somewhere between 10% to 20% utilization levels for OEMs at this point of time and we expect truck OEM to be the most affected out of all categories so we continue to see or we expect to continue to see maybe not at this level but clearly improved levels because your base itself is you are talking about a 15% kind of capacity utilization of OEMs in Q1 so things will get better, but it will be the weakest of categories. On the replacement side things have not been bad I say in terms of demand has been very strong for truck tyres particularly utilization levels also have been relatively good at this point of time, I think you shared about 50% or so the numbers that I would be thinking of is closer to 70% to 75% truck utilization levels so I say going forward as I said right now we are seeing a little bit of more channel inventory filling and therefore demand is higher I think this will come down over the course of the year, but replacement truck I think we expect to continue to see a slightly slower but good demand.
- Basudeb Banerjee:** Indirectly Sir can you help me to understand replacement truck tyre sales of yours in June and July you have said April, May average compared to say pre-COVID levels how will it be positioned?
- Anant Goenka:** Yes replacement truck tyres we will be at a growth level over last year.
- Basudeb Banerjee:** Better than pre-COVID levels?
- Anant Goenka:** Yes, year-on-year we will see positive growth.
- Basudeb Banerjee:** Okay that is great Sir, thanks. That is all.
- Shyam Sundar Sriram:** This is Shyam Sundar Sriram from Sundaram Mutual Fund, good evening. My question is on the recent tyre import restrictions from the Government of India, so specifically on the passenger car tyres wherein we understand around 4.5 to 5 lakh tyres are getting imported and much of this is done by the organized players maybe some of the OEMs and the organized tyre makers and also there are restrictions even on all categories of tyres so has there been any impact because of that on the replacement market per se or are the domestic incumbents you have said and the other

domestic players are they seeing any pickup in terms of the incremental demand on the replacement market or from the OE side any thoughts on that?

Anant Goenka: Yes so the tyres has been placed on a restricted list for import, which means to import tyres you need to get a license from DGFT, the application of this license etc., can be done by the necessary importers and once you get the license you can import, usually what we notice is when these restrictions are imposed import can come down by as much as 50% to 60% so clearly we do expect to see some positive impact, I think right now there is so much volatility in the market and so many different things affecting demand it is up to say whether how much and whether this impact has been felt at this point of time, but clearly it will be beneficial for us I can say that much now whether we are experiencing it now or not and how much it is a little tough to say right now.

Shyam Sundar Sriram: Which segments do you think from our domestic tyre makers can benefit more, if PCR segment can benefit more or which segments do you think can benefit more if the imports go down meaningfully?

Anant Goenka: I am going to guess a little bit here but I think import of trucks were still relatively higher amongst categories even though there was an import an antidumping duty so trucks may get more positively impacted, relatively I think the two-wheeler there was not too much of imports and maybe passenger somewhere in the middle.

Shyam Sundar Sriram: Sir one question on the demand front you did mention on the truck side the replacement truck tyres grew June and July mostly we were also mentioned there could be some amount of inventory filling and some quick ramp up in the utilization so similarly on the two-wheeler and the PCR side also is it right to presume that both June and July you would have seen a YoY growth year-on-year growth per se in the aftermarket?

Anant Goenka: Yes.

Shyam Sundar Sriram: Both two wheeler and PCR side?

Anant Goenka: Yes passenger car I need to get back specifically for the month of June because I know the first week of June particularly continue to be weak, but towards the later half things picked up quite well and July also we should see positive growth.

Shyam Sundar Sriram: Two-wheeler also a positive growth?

Anant Goenka: Yes.

Shyam Sundar Sriram: But you are expecting that because since the economic activity is generally muted this growth trajectory should taper down?

Anant Goenka: Yes that is right.

Shyam Sundar Sriram: Any sense on the competitive intensity are there any pricing pressure seen in the aftermarket because already when you are in a crunch some player trying to disrupt the market by cutting prices or anything of that sort we have observed in any segment Sir?

Anant Goenka: No, I have not seen any specific action, pricing action at this point of time.

Shyam Sundar Sriram: Okay understood Sir. Thank you very much.

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

Nishant Vass: First question is just a clarification additional for what Shyam asked so could you get us a sense what is the share of import pre-COVID on the categories broadly speaking as a share of overall demand?

Anant Goenka: I think it would be about 6% to 10% varying category to category I can get back to you on our approximate estimations maybe separately I would not have all the details now, if that were to go down by about half we would be having maybe 3%, 4% increase in market size.

Nishant Vass: My second question is more on let us say you are guiding in a more let us say a pragmatic manner from a demand structure perspective, but I just wanted to get your thoughts because as you earlier alluded to in your call that this is an unprecedented situation and lot of costs are being looked at and though admirably you have not looked at a head count reduction in any sort, which is very admirable but what are you looking at structures on productivity on employee cost and what will trigger you to think in this cost line in a more deeper manner?

Anant Goenka: A couple of actions that we have taken is that we have not given any increments to our people at this point of time, we have not had a round of exits or layoffs until now at least because we feel that this is the toughest time possibly for anyone to get a job, but we will look into it over a period of time, we felt that this is not the right time to do, once maybe we will look at our cost separately and then take a call, but the only call we taken is no increments and clearly no recruitment of anyone at this point of time.

Nishant Vass: Just trying to understand because as you mentioned utilization and capex both run on the opposite trajectory because my connected question was that how are you looking at your ROE targets and I think there was another question earlier so because even your incremental capex you guys have not have a strict target of ROE so when do you think management will kind of reevaluate either those targets per se or picking up other call on the cost side if things on let us say we are hope for growth but if the growth does not materialize in the phase that we anticipate then what are the mitigating steps just trying to see if there is an action plan B in your mind?

Anant Goenka: Yes, I think the key is as you said cost cutting is absolutely the way to go at this point of time, but people cost is something that we will look at, at a later point of time, so it is not top priority at

this point at least for the next maybe few months time, after that we have to see how things work out and then take a call clearly at that point of time, but I think it is going to be primarily cost cutting, I think we will have to reevaluate our ROE estimates, I do not think we will be able to meet them in light of what has happened with the way they will be looking at a loss situation in a quarter, which was completely unanticipated after putting in a few 1000 plus Crores in the last 12 to 16 months kind of time so I think this year overall we have to just look at it as a really abnormal period and look at bouncing back as much as possible going forward so we have looked at all kinds of cost, we are looking at how we do business and we do expect or we are aiming towards about a 15% drop in all of our cost is what we are aiming for. When I think these are times where people do get together I think the way the threshold for change really comes down at this point of time and people put in the best towards looking at radical change at this time and I think people have come about doing that I think clearly in CEAT they have, when I do think in many other companies people would be really thinking out of the box at this time.

Nishant Vass: Great to hear and congratulations and best of luck.

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

Abhishek Jain: Can you throw some light on the new business you own in last six months in PCR and TBR side and two-wheeler side and how much incremental revenue you are expecting once the things will be normalized?

Anant Goenka: How much incremental revenue, out of the various investments that we have done if we are talking about an approximate investment of about 1500 Crores or so approximately over the last couple of years time and in asset turnover of about 1.3 type level we should aim for at least 2000 Crores kind of additional turnover with all of this, there will be a little bit of a drop in truck by a sales because of a slowdown in that part of the business over time so every year in truck buyers we may see negative 5%, 6% growth this is I think overall level I hope I have answered the right question.

Abhishek Jain: Yes Sir and I am also asking for the new business you won in the PCR and TBR side recently?

Anant Goenka: The new business that we won with respect to OEM business?

Abhishek Jain: In respect to the OEMs only.

Anant Goenka: With respect to TBR there is not too many new major launches that happens so TBR OEM business is very weak at this point of time because demand itself is very low for trucks in general at this point whereas for passenger car radial yes we have got a number of new RSQs, we will be there in at least four or five new launches in the next few months time and if you look at car numbers very often you will find new launches that see abnormal growth just the way last year you would have seen Hyundai, MG Hector, etc., is outfacing the market versus say models that

have always been there, so similarly we are very happy that we are there in a lot of the potentially high selling models, which will be launching they had been delayed, but we are optimistic with our OEM side in the passenger car side.

- Abhishek Jain:** Just wanted to know about your revenue mix for replacement OEMs and export for Q1 FY2021?
- Anant Goenka:** So of course this quarter there will be abnormal mix maybe replacement would be at closer to nearly 80% and about 10% in the other two.
- Abhishek Jain:** So in replacement segment what was the contribution from the two-wheeler, PCR and CV segment?
- Anant Goenka:** So two-wheeler is approximately about 30% of our sales, PCR will be about 15% these are very broad numbers I am not talking specifically about Q1 and sorry which was the third one?
- Abhishek Jain:** The PCR segment?
- Anant Goenka:** Yes PCR as I said about 15% or so.
- Abhishek Jain:** Commercial vehicle and other...
- Anant Goenka:** Yes there will be other last mile tyres, etc., and then of course the balance is commercial vehicle.
- Kumar Subbiah:** Anant you meant overall level right company level?
- Anant Goenka:** At an overall level.
- Kumar Subbiah:** Not replacement?
- Anant Goenka:** Would you like anything data that you have Kumar that you would like to add?
- Kumar Subbiah:** No, normally we do not provide the breakup of categories at BU level and some of us answered that question broadly at a company level the breakup of revenues is what I think you explained.
- Anant Goenka:** That is right.
- Kumar Subbiah:** Yes.
- Moderator:** Thank you. Abhishek we would request you to please come back in the question queue for any followup questions. The next question is from the line of Nikunj Gala from Principal Asset Management. Please go ahead.
- Nikunj Gala:** My first question is with respect to our specialty tyre business since we have invested approximately 400 Crores as you mentioned and we are going further round of investment of 500

Crores so total we would be investing 900 Crores for 100 TPD so I understand this is a Greenfield capex, but on a per tonne basis this capex is looking at slightly on a higher side so on this capacity or in this facility incrementally how much Brownfield capex can be done?

Anant Goenka: We can go up to about 300 tonnes per day.

Nikunj Gala: Okay 300 TPD with incremental capex of approximately?

Anant Goenka: I do not have the number from 100 to 300 what it would be, but clearly the entire land cost a large part of the savings cost at least for about 120 tonnes per day will be done in advance then from 120 going to 300 you will have to kind of do the entire savings, incur the entire saving base again, but say things like land grading, some amount of warehousing, etc., would have been done in advance, the incremental cost will be lower cost.

Nikunj Gala: Any number if you can help us with?

Anant Goenka: Maybe I would not have that number for the second half we have not even done the calculation.

Nikunj Gala: How would be our domestic and export mix in specialty tyres?

Anant Goenka: So there are two types one is your domestic farm segment, but that is not part of CSTL says at this point of time it will be about 80% international market and some tyres that go into mines and ports in India that is part of this as well.

Moderator: Thank you. The next question is from the line of Lokesh Manik. Please go ahead.

Lokesh Manik: Just one clarification I needed on the gross margin you mentioned that the margins are down quarter-on-quarter from 45% to 40% mainly driven by you have a change in inventory of about 211 Crores and the costing for that has impacted it has come in the other expense, just want a clarification what is the reduction in inventory, would have also like to an increase in sales then or this is in transit and not recognized at a sales, there was a confusion there?

Anant Goenka: No, I think all the reduction in inventory would have resulted in sales of course.

Lokesh Manik: Okay, but the margins are at 40% compared to 45% so if it resulted in sales and your margins would have been captured in sales?

Anant Goenka: Kumar would you want to elaborate on this?

Kumar Subbiah: I think an element of overhead cost that is included in this, so in the gross margin you have not only your material cost that your other cost, which are all included in this that amount is at about 40 Crores to 50 Crores and that is the impact that comes in so your transit to CFA and other cost beyond material cost that are included in this so it is largely an accounting impact that comes in and it does get eliminated at an EBITDA level.

- Lokesh Manik:** Gross margin is down from 45% to 40% and we have seen a reduction in inventory of about 200 Crores, which is simultaneously we have increased our sales and our margins would have been captured there so you said that there were some issues with that I got a little confused on that.
- Kumar Subbiah:** I will explain, if you were to go by activity based recognition of cost we should have shown not in the P&L because that is driven by accounting standard, material cost should have been less by about 50 Crores on this 200 Crores plus 47 Crores of increase at the inventory that happened in last quarter at a consolidated level and balance would have come between manufacturing cost that is conversion cost which is part of their finished goods value and distribution cost which is part of distribution cost see the raw material that we consume is not necessarily the raw material that we used for say the difference between cost of consumption and cost of goods sold is nothing but the cost of goods consumed plus or minus difference, so here finished goods value difference has nonmaterial component, which is why the gross margin goes at the quarter-on-quarter it is lower by about 5% so see at the EBITDA level you do not see the drop because it will never be neutral and so in our internal analysis we always actually look at what is the material cost incurred for the goods that got sold, someone asked us on the beginning whether the margin per KG remained the same or which we said yes our margins are changing that marginally went up the same is the case here, so it is more about accounting that drives the gross margin May gross margin is calculated, but in real sense gross margins for Q1 were marginally higher than Q4 of the previous year.
- Moderator:** Thank you. Due to time constraints we would request the management to please add any closing comments.
- Anant Goenka:** Thank you everyone for your interest in CEAT, we look forward to connecting with you once again next quarter, stay safe, stay healthy and take care. Thank you.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.