



“CEAT Q1 FY-16 Earnings Conference Call”

July 24, 2015



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MODERATOR: **MR. AMIT MISHRA – MACQUARIE CAPITAL**
SECURITIES



CEAT
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Moderator: Ladies and gentlemen good day and welcome to the CEAT 1Q FY16 Earnings Conference Call hosted by Macquarie Capital Securities. As a reminder all participant lines will be in the listen-only mode. 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. Amit Mishra from Macquarie Securities. Thank you and over to you sir.

Amit Mishra: Thanks Zaid. Good evening everyone. On behalf of Macquarie Securities I welcome you all to 1st Quarter FY 16 post results conference call of CEAT. Company is represented by the management Mr. Anant Goenka – Managing Director, Mr. Subbarao A – Group CFO and Mr. Manoj Jaiswal- new CFO of CEAT. I would now hand over the call to Mr. Goenka for opening comments. Over to you Sir.

Anant Goenka: Thank you. Good evening and a very warm welcome to CEAT Quarterly Investor Call. I am Anant Goenka – Managing Director of CEAT and with me I have Mr. Subbarao A – our Group CFO and Mr. Manoj Jaiswal – our incoming CFO. Thanks a lot for your interest in CEAT and I will take you through our results briefly and a few key parameters relating to our results. After which we will take some questions.

Some information on a year-on-year basis; CEAT India registered 0.5% revenue growth on a year-on-year basis driven mainly by volume growth of 5.5% and price and mix contributed to negative 5%. Raw material costs were lower by about a little bit over 10% on a year-on-year basis. Rubber and crude related raw materials have continued to soften over the last few quarters and we expect raw material prices to remain at current levels going forward in the near term. The 5.5% volume growth was mainly on account of good growth in the domestic markets of about 10%. Both replacement and OEM markets have grown while export has shown a substantial de-growth of over 10%.

Passenger segments have continued to grow well, which are our focus segments of over 20% on a year-on-year basis. On a product mix side, things have continued to improve with motorcycles, passenger cars and UV together contributing to 36% of sales in Quarter 1 of this financial year.

On a quarter-on-quarter basis CEAT India registered 0.7% revenue decline with a volume growth of 2%. In terms of segment, replacement grew by 5%, however export registered decline of 5% and OEM was flat.

Raw material prices were lower by around 4% and softer raw material prices perhaps improved gross margins both on a quarter-on-quarter and year-on-year basis. So overall our sales growth was flat, however margins have improved largely because of raw material benefit mixed with

improving product mix. We experienced steady growth both in the OEM and replacement markets as I have shared and we have entered new OEMs like Yamaha and Renault Nissan recently to our portfolio and also entered into new models with existing OEMs like Royal Enfield which will be strategically important for us in the longer term.

Going forward our expansion plans are on track. We expect to start commercial production of our Halol passenger car radial expansion in the current quarter and our Nagpur plant which is a two wheeler plant is also largely on track with the plant expected to be ready in Quarter 4 of this financial year. Our project in Bangladesh continues to be hampered because of issues relating to land and that continue to be delayed as was shared earlier as well.

On the raw material front also we expect rubber prices to stay around current levels, crude prices have softened. Recently there was an upward trend however with the recent political changes that have happened with the US-Iran nuclear deal, with closure of the Greece situation in Europe, we think crude prices will continue to remain soft.

Domestic markets, we expect to continue to see positive growth on the OEM as well as replacement tyre market.

I will now hand over the call to Mr. Subbarao who will take you through key financial parameters of the company.

Subbarao A:

Thanks Anant. Good evening ladies and gentlemen. Having the opportunity to be presented I would like to take you through some metrics of the financial performance as well as some analysis of the expenses and the balance sheet.

The gross margin to begin with, the gross margins have expanded by about 820 basis points year-on-year to 42.7% and on quarter-on-quarter basis the margins have expanded by 170 basis points. EBITDA quantum on year-on-year basis rose by 65% and 224 crores and on quarter on quarter basis by about 21%. The margins have expanded by 610 basis points year-on-year basis to 15.4% and on quarter-on-quarter basis by about 270 basis points. And this also has been helped by some expense reduction both in other expenses as well as in employee costs on quarter-on-quarter basis. But on year-on-year basis the employee cost has gone up largely on account of the wage revision as well as the bonus and other annual increments. Other expenses on quarter-on-quarter basis have come down by about 22 crores because of the reduction like we see in repair, outsourcing cost, stores, and space. However on year-on-year basis the other expenses have gone by 15 crores primarily because of CEAT's strategic ad-spends, outsourcing costs, etc.,. The outsourcing also gone up by about 26% year-on-year basis largely on account of the volume growth and also on account of the rate revision. The finance cost for the quarter has come down by about 12 crores year-on-year basis. The profit before tax has expanded by 700 bps year-on-year basis and 330 bps on quarter-on-quarter basis. Company's net worth also has significantly gone up to 1806 crores from 1075 crores year-on-year.

Consolidated debt has significantly come down from 1125 crores from last year to 736 crores. This gets reflected substantially in various metrics. Debt-equity has come down to 0.4x from 1.0x on the earlier year. Debt-to-EBITDA has come down to 0.8x from 2.1x. EBITDA to interest has moved significantly 8.7x from 3.6x. So this gives us adequate headroom in the balance sheet for the growth.

On the Sri Lanka JV front – Sri Lanka JV revenue has declined by 12% sequentially and on year-on-year basis by about 18% due to market conditions. However EBITDA margins have gone up by 670 bps year-on-year basis and by 470 bps quarter-on-quarter basis. I will pause here, conclude my presentation and we will take the questions from you. Thank you.

Moderator: Thank you very much members of management. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: What has been the sequential change in your raw-mat commodity prices specific like synthetic rubber, carbon black, etc.,?

Anant Goenka: Sequentially roughly about a 5% kind of drop in raw material from Quarter 4 to Quarter 1, roughly at that kind of level. Largely all crude oil related products have come down, rubber has remained flat, but all crude-based products which is the balance of our raw material have come down.

Basudeb Banerjee: That's why I'm asking specifically like synthetic rubber and carbon black what has been the movement QOQ spot rates you have booked at?

Anant Goenka: It would be between the range of (-5) to (-15). I won't be able to give you exact details but varies from (-5) to (-15) kind of level.

Basudeb Banerjee: Second thing if I look at your realization change that is the price mix change QOQ and the same the raw material per Kg change, the quantum of decline is broadly the same. So if I see your gross profit per Kg has more or less remained unchanged this quarter. So from a futuristic perspective how do you see this pricing pressure continuing because if I see three quarters consecutively your blended realization has been going down so what's your view for the coming quarter sir?

Anant Goenka: So if you look at market wise the export sees tremendous pressure. There is a large amount of—so we have been continuously passing on prices because of competition from China. On the OEM side large amount of our contracts are based on linked commodity prices so that is formula based. And on the replacement side it is a little bit ad hoc, really depends on competitive situation, SKU to SKU and depending on where we are introducing new products and things and based on that we take a call on replacement. So replacement is a little bit subjective but the other two is quite specific based on what's happening right now.

- Basudeb Banerjee:** No sir I wanted to understand that for last few quarters anyhow these price cuts have also been compensated by the favorable movement in your raw material basket. Assuming if the raw-mat per Kg remains flat as it is will you be forced to take price cuts for the this adverse demand environment for these price cuts have been only in sync with the falling raw-mat environment.
- Anant Goenka:** So very difficult to give an answer on that. So I would say that I don't see specifically any pressure coming in if raw material prices don't come down reason is as I said lot of it is linked to raw material pricing, particularly OEM is all linked to raw material prices don't come down further OEM will stop coming down. On the export side, it really depends on what's happening with respect to China and competitive position. But I don't see again prices coming down if raw material prices don't come down. So difficult to give an answer but I don't see prices coming down if raw material doesn't drop.
- Basudeb Banerjee:** And sir as Mr. Subbarao said that your Halol plant is already ready for getting operational and Nagpur plant by end of this year. So sir what will be your overall CAPEX including maintenance CAPEX, greenfield, brownfield taken everything together for this year and next year?
- Subbarao A:** The maintenance CAPEX approximately is around 90 crores that's what the regular run rate. So I think it is likely to be around the same figure for the next year also. In terms of the CAPEX, the total CAPEX for the Halol project for this year it is about 490 crores, beyond this year about 23 crores would be pending for the next year and the two-wheeler for this current year is about 242 crores, the CAPEX and beyond this year 149 crores would be spent in the next year.
- Bangladesh depending upon when it is going to start the production, the total outstanding CAPEX is about 270 crores that would be spent in about one year's time from the date of the construction.
- Basudeb Banerjee:** And sir as you were planning for a fresh OTR project so any update on that?
- Anant Goenka:** No, not yet so we are still exploring at this point of time. No final decision taken on that yet.
- Moderator:** Thank you very much. Our next question is from the line of Arjun Khanna from Principal Mutual Funds. Please go ahead.
- Arjun Khanna:** My first question is in terms of the exports. If you could help us with what's the issue in terms of, is it just pricing or it's the market itself declining?
- Anant Goenka:** It's related to three factors, one is export has got affected because of competition from China, second is currencies in key export countries have depreciated to the dollar which is Indonesia, Nigeria and Brazil and third is a radialization is happening in all of these countries. So with that happening we were historically largely selling a truck and light-truck bias which is getting

more and more outdated. So going forward I would say really the key is that as our new capacities come in we will have to look at exporting those capacities and therefore taking the total volumes up and it's not really anything else that is affecting it. So it's not going to be a quick tweak internal operations that will increase sales, it is more structural in nature which could take six months to one year's time.

Arjun Khanna: All our incremental capacities if I understand correctly radial at least in the TBR and the PCR segment, what do we do with our bias capacities?

Anant Goenka: So on the bias the key is to see how do we keep utilizing it as much as possible. But eventually if the capacities come down we will have to take a call what to do with the older bias capacity plants. We will look at small-small quantities of conversion for example we would look at seeing if we can produce some more farm tyres and things like that in our bias capacity but that's only a very small quantity of conversion that I see happening. Today our plants are utilized at about 85% that's our bias plants and at that kind of level we are still comfortable. So I see there is no substantial change expected to happen on our bias plants for the next year, year and a quarter's time.

Arjun Khanna: Sir this capacity including both Nasik and our Bhandup facilities?

Anant Goenka: That's right.

Arjun Khanna: The second question sir was a bit on GST, what's our reading in terms of the Bhandup plant, the Octroi duties, do you see them being included in the GST rates?

Subbarao A: Yes I think if you remember the Maharashtra budget, as far as Nasik is concerned the LBT is set to be taken off effective from 1st of August and as far as Bhandup is concerned all indications are available, the GST will subsume all indirect taxes, other taxes and only GST would be there.

Arjun Khanna: Sir what benefit do we see immediately from the bias facilities?

Subbarao A: Net-net because we are currently impacted by the local taxes in Maharashtra like Octroi and despite such an incremental burden on account of GST we should be either neutral or there should be marginal gain for us.

Arjun Khanna: Sir my next question is in terms of export markets, you talked a little bit on Iran. Do we export to Iran and is that an opportunity for us?

Anant Goenka: Yes we do have a very good distributor out there. The exports there keep going on and off depending on US sanctions and with respect to the external situation. But if the market opens up and there is a free currency flow allowed it can be a decent opportunity for us. It's not a game changer for the company but yes it will be a positive for export.

- Arjun Khanna:** And lastly sir if we look at your numbers in Sri Lanka if you could get a little bit more granular on it? We see year-on-year sharp decline, any key reasons for that or its just market?
- Anant Goenka:** Yes so Sri Lanka also has lastly got hit because of exports so exports there are down by 50% for similar reasons as India. In fact domestic market there is positive. In the month of June for example we have the highest ever domestic sales in Sri Lanka. So domestic market is intact, export has got hit badly.
- Arjun Khanna:** If you could help breakout sir what percentage of sales are domestic and how much is export?
- Subbarao A:** Yes I think we will revert shortly and state the figure, in next five minutes we will just take this out.
- Moderator:** Thank you very much. Our next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.
- Pawan Kumar:** How much of incremental capacity would be available for commercial production going forward from Halol?
- Anant Goenka:** So Halol we are currently doing about 3 lakhs passenger car radial tyres per month. With the expansion we will take up our total capacity from 3 lakhs to 8 lakhs, we are adding 5 lakhs tyres per month production. This will take about a year and a half from now to ramp up. So over a course of the next year and a half we will reach 8 lakh tyres.
- Pawan Kumar:** Wanted to know this year how much would be available?
- Anant Goenka:** I can just give you a broad estimate that out of I think 3 lakh tyres should be available by March exit, March 2016 you will see about 3 lakh tyres which means an average of about 1.5 lakh tyres per month for the year.
- Pawan Kumar:** Coming to the Nagpur facility how much would be available this year?
- Anant Goenka:** Hardly anything because we expect the plant to be ready by Quarter 4 so I would really not say much. However we have increased some of our outsourcing capacity so from there we will see an incremental about 2 to 2.5 lakh tyres per month from what we are doing right now. So if you were to compare from last year we were doing about 9 lakh tyres per month. This year we should be at about 13 lakh tyres later from September onwards.
- Pawan Kumar:** But saying that 2.5 lakh tyres additional will be available from Hyderabad is it?
- Anant Goenka:** From Hyderabad and other outsourcing capacities. So we are looking at small-small quantities from other outsourced partners where we can get about a lakh or a lakh and a half tyres.

- Pawan Kumar:** It is still not clear, you said 9 to 13?
- Anant Goenka:** So just to summarize once again, today we are doing about 11 lakh tyres per month, this will go up to about 13 lakh tyres by around December of this year. Last year same time we would have been doing about 8 to 9 lakh tyres and therefore if you were to look at a year-on-year growth level that 8 to 9 lakh tyres will go up to somewhere between 11 to 13 lakh tyres over the course of the next six months.
- Pawan Kumar:** How much of capitalization is expected for FY16?
- Subbarao A:** It is only Halol as well Nagpur both will get capitalized mostly. Halol will get capitalized to the extent of around 600 crores. On account of Nagpur about 260-270 crores will get capitalized out of 430 crores.
- Anant Goenka:** Also just to answer Arjun question on Sri Lanka exports, we are currently doing about 22% of our revenues come from exports.
- Moderator:** Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** Can you please share the growth in different segments like two-wheelers and passenger car radials and all?
- Anant Goenka:** Yes so broadly we've grown well on the two-wheeler side at over 25% kind of growth level. Our truck and bus largely remained flat and if you were to look at passenger car has grown at over 10%-15% kind of growth levels, tractor and off highway tyres have seen a little bit of challenge from our environment perspective so that's been at about somewhere between 0 and (-5).
- Ashutosh Tiwari:** So in terms over last year essentially your product mix has improved because you have seen high growth in all the segments where probably you make higher margins. Besides that the price mix is only 5% so is the extent of price cut is more than 5% there?
- Anant Goenka:** Possibly on average it could be, there would be two things, one is that so as I said exports has been a large price pass on that has happened, OE we were passing on so yes there has been some price. As well as if you look at it the other is the market mix so we have been selling more and more to OEM say particularly in the passenger side. So while we have been selling more passengers, good amounts were committed to OEMs as well. So therefore the market mix may not be fully positive.
- Ashutosh Tiwari:** So in two-wheelers you said 25% volume growth, how much it would be in replacement market only?

- Anant Goenka:** I can get back to you on the data. Yes replacement would be somewhere around over 30% growth.
- Ashutosh Tiwari:** From one of your competitor's annual report I got the information that the PCR replacement market in India grew by 12% YOY, is that the kind of number that the industry to achieved last year?
- Anant Goenka:** I think the passenger car segment would have generally grown by somewhere between 5% and 7% in my view at an industry level roughly. I'm talking about OEM, automobile growth.
- Ashutosh Tiwari:** No I'm talking about replacement market of tyre.
- Anant Goenka:** Sorry replacement market I won't have that data off-hand. But in my view also I agree that it could be in higher single-digit.
- Ashutosh Tiwari:** And sir there was increase in the import duty on rubber, has that impact come through in the current quarter or it will come in the next quarter?
- Anant Goenka:** No that impact, you see, there are so many factors affecting rubber so there has been an increase for domestic has come up but on the other hand the international rubber prices have generally been low. So in the end it kind of had an immediate impact of any taking up rubber prices by about Rs 5 per kilo but that has in the way come back down by about Rs 5 because of softness all over.
- Moderator:** Thank you very much. Our next question is from the line of Bharat G from Angel Broking. Please go ahead.
- Bharat G:** I just wanted to understand like given the favorable raw material scenario that we are witnessing and the continued increased proportion of the relatively higher-margin passenger mix that we plan given the Halol and in Nagpur addition. So I just want to understand what would be your margin estimates? Do we foresee to maintain 15% kind of margins going forward?
- Subbarao A:** We don't give any guidance from the margins but however we are seeing directional movement; yes given the conditions continuing which prevail currently, yes there should be an upward movement.
- Moderator:** Thank you. Our next question is from the line of Ambrish from JM Financial. Please go ahead.
- Ambrish:** Sir just wanted to get your sense on the breakeven point at our new facilities. You said Halol will start operational in this quarter and both these capacities, Halol and Nagpur what you think could be the breakeven points for us?

Anant Goenka: Let me get back to you on that. I don't have exact data but surely Nagpur breakeven will be at the lower tonnage but let me get back to you on that Ambrish.

Ambrish: And just wanted to check my number which I just noted when you were talking about it. Is it correct that you currently have 300,000 per month PCR production at Halol, current?

Anant Goenka: That's right.

Ambrish: And we are adding another 500,000, is that correct?

Anant Goenka: Yes.

Ambrish: So total capacity will go to 800,000 and our exit capacity for March this financial year would be roughly 600,000 out of that 800,000?

Anant Goenka: That's right. It could be a little bit lower. I don't have the exact number but I'm giving you just a broad number on the exit so that I am presuming it's a year and a half to ramp up. We should be at somewhere around half way level by March.

Ambrish: And similar thoughts on the two-wheeler capacity I mean in terms of how we plan to ramp it up.

Anant Goenka: The two-wheeler will start by Quarter 4 of this year and I would say again one year to ramp up so next year we will get half the capacity benefit.

Ambrish: FY17 will have 50% utilization for two-wheelers?

Anant Goenka: Yes.

Ambrish: And just one last question in terms of Sri Lanka numbers, how do you see the margins because the margins have been really very strong so I mean do you see these margins stabilizing here or you feel that these are unusual margins and should come off?

Anant Goenka: I think Sri Lanka margins see one is that we are enjoying the benefits of low raw material prices. My guess is that raw material prices in the near term would continue to look low because of China, because of overall positivity on crude being low, etc., so I don't see raw material prices going up in the near future. And therefore I feel and on pricing there is no specific pressure either. So with exports going down I think there can be negative growth continuing for some time but I feel that margins could be intact, maybe 2%-3% here and there but I don't see any major impact.

Ambrish: And can you share your similar thoughts on the India margin because I guess we have reported highest ever margin for our business?

- Anant Goenka:** I think margin should be again very similar to what's happened in Quarter 1. I think see on the raw material side again I don't see much change. I don't see raw material prices going down because they have reached quite low-level, we've started getting the benefit of crude when it was at 55 to 60 kind of range that's where crude is even now even rubber has been quite steady at Rs 125 per kilo-Rs 130. I don't see it going down further but nor do I see it going up. So in my view for the next 3 to 6 months raw material will remain the same. On the product mix side also I think things will continue to be the same in the near term. We will see some benefit of Halol ramp-up happening but overall I see raw material margins in the near term remaining at somewhere around current levels.
- Moderator:** Thank you very much. Our next question is from the line of Krithika Subramanian from IIFL. Please go ahead.
- Krithika Subramanian:** I had a few questions; one with respect to our product mix has improved quite favorably towards the two-wheeler segment where they are contradicting around 26% of our sales this time. Is this likely to continue going forward or can we expect further drastic change in the next two years?
- Anant Goenka:** The focus is going to continue towards this so if you look at passenger cars, we have just shared that we are seeing a substantial growth in capacity. We are looking at 2.5 times more sales in about a year and a half time and on the two-wheeler side also we've doubled our capacity from effective next year. So with that, both those coming in we think our product mix will improve towards more profitable category.
- Krithika Subramanian:** Could you quantify the same if possible?
- Anant Goenka:** So in terms of percentage of sales, we are currently doing about 35% sales from passenger which we are seeing is the higher-margin category with doubling of that I see that this can go up to about 55%-60% of our sales.
- Krithika Subramanian:** Could you elaborate on what do you expect the volume growth to be in the next two years?
- Anant Goenka:** Difficult to give a number, Quarter 1 has been at about 5% volume growth. Going forward we will experience some benefit coming in from the Halol expansion that we have done in the coming year. But on the other hand we are also seeing the negative growth on the—or some pressure on the bias side which is currently being flat but I think truck bias could come down. So net-net I see growth to be somewhere in single-digit between 5% and 10% kind of levels for the next year or so.
- Krithika Subramanian:** Actually Sir during the last analyst meet I think you all indicated that by July a decision will be made with respect to the Bangladesh plant. I just wanted to know as to how much more time would we plan to meet in order to make a decision?

- Anant Goenka:** So we are continuously working with the government out there and it is clearly much slower than what we had anticipated working with them. We are trying to figure out how can we get access to the land that we had bought which is a challenge and I hope that in a month's time still we will be able to get some clarity on the access to land.
- Krithika Subramanian:** Just a couple of more questions, on your ad-spend I realized that that is higher this year, what kind of percentage would we like to maintain going forward?
- Anant Goenka:** As a percentage of sales at least current levels.
- Krithika Subramanian:** And what is the effective rate of interest since you mentioned that that has gone down this time?
- Subbarao A:** See interest rate has several components and we significantly borrow in foreign currency so we hedge all the foreign currency usually. And if you include the hedging charges we should reach average of in this current year around 10.5 kind of pricing.
- Moderator:** Thank you. Our next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Lakshmi Narayanan:** I have couple of questions, first is in terms of export. You mentioned that you broadly export bias and also for light commercial vehicle. So is it right to say that almost 100% of your exports are only coming from two segments which is TB and LCV?
- Anant Goenka:** No, not really a large share so I would say at least about somewhere around 70% of our sales would be coming from these two categories, the balance would be passenger car tyres and other categories of tyres, farm tyres, specialty tyres, etc.,. So that is the area which has been under pressure.
- Lakshmi Narayanan:** You are saying that 30% is under pressure?
- Anant Goenka:** No, about 60% to 70% of the cross ply tyre is under pressure.
- Lakshmi Narayanan:** And I believe export is essentially cross ply, right?
- Anant Goenka:** No we also sell radial, we also sell a large share of car radial in fact I would like to just revise my numbers. I would say cross ply truck bias and cross ply LCV would be somewhere around 45% to 50%. The balance would be truck radial and other sectors as I said farm, two-wheeler, and passenger car. So the area under pressure is the 45% to 50% of truck and LCV bias.
- Lakshmi Narayanan:** And in terms of our total radialization I mean if you take in terms of percentage, is it around 20% is our radialization?

Anant Goenka: No about 32% in India.

Lakshmi Narayanan: And how much of our TB is radial I mean locally sold in India radial?

Anant Goenka: How much of what CEAT sales?

Lakshmi Narayanan: No, how much of our truck and bus segment is actually—for T&B for CEAT is radial?

Anant Goenka: Just to clarify the industry is at about 30%-32%, for CEAT roughly we are doing about..

Subbarao A: 150 out of 800.

Anant Goenka: 70 tonnes per day of truck so passenger cars of course everything is radial. I think it would be around 20%. I can get back to you with the accurate exact number but about 20% of what we sell is the truck radial.

Lakshmi Narayanan: And you mentioned the overall volume growth has been 5% and also you mentioned that two-wheelers growth has been significantly higher. So what has been the volume growth in two-wheelers for us?

Anant Goenka: Volume growth has been at around close to 30% in two-wheelers.

Lakshmi Narayanan: And last in terms of our market share in PCR and two-wheelers, what is our market share right now broadly?

Anant Goenka: PCR, UVR would be somewhere just under 10% and on two-wheelers will be over 20%. Data may not be accurate because we don't have all the production data up to date but the data we have is about six months old.

Lakshmi Narayanan: And is it possible to see whether this is... you are talking at a blended thing so are we strong on a two-wheeler replacement or the two-wheeler OE, which one is something...

Anant Goenka: Replacement two-wheeler would be somewhere around 25%.

Lakshmi Narayanan: On market share.

Anant Goenka: Yes and on OE would be somewhere around 20%.

Lakshmi Narayanan: And the corresponding figure for PCR?

Anant Goenka: Overall PCR would be somewhere just under 10%, OE replacement breakup I don't have. It would be very similar between the two categories between OE and replacement.

- Lakshmi Narayanan:** Are we planning to introduce I mean do you already have a product on two-wheeler radial right now?
- Anant Goenka:** Yes we have started selling two-wheeler radial tyres to Yamaha just this quarter so that is going to be... we have just launched that only with OEM at this point.
- Lakshmi Narayanan:** With Royal Enfield you mentioned that....
- Anant Goenka:** No Royal Enfield we are supplying cross ply tyres.
- Moderator:** Thank you very much. Our next question is from the line of Viraj Kachariya from Securities Investment Management. Please go ahead.
- Viraj Kachariya:** Just have couple of questions, first is considering this radialization trend which is underway in truck and bus, a lot of this truck and bias capacity would be redundant. So we still have a very high exposure to truck and bus segment in general. So to which segment are we channeling this excess capacity towards?
- Anant Goenka:** As I said that's why in part growth has been muted. So if you look we have been growing very well on the passenger car side but growth on the bias side has been flat or in some quarters showing (-1%) to (-2%) kind of levels of growth and I think this could continue going forward. So I don't see any specific solution on the bias side because that is one category which can't be converted much towards radial because it can't be converted at all to radial. And as I mentioned, some amount of conversion can happen to other bias sizes. But the size of the market for truck is much larger so I think that capacity utilization continuously coming down in the longer-term.
- Viraj Kachariya:** Just similar question for the industry in general so since we are also facing that kind of fluctuation. How does industry compared to that so industry-wide are we seeing which segments they are channeling excess capacity towards?
- Anant Goenka:** No I think industry situation maybe a little similar. I can't comment on what's happening with competition but I presume this will be similar.
- Viraj Kachariya:** From your reading from other players in general are they moving to farm, OTR, two-wheelers because those are the segments where radialization is still in low single-digit.
- Anant Goenka:** No difficult to comment. I presume people may be thinking along similar lines but I can give an answer to that.
- Viraj Kachariya:** For us which segments you are looking at even in the small...

- Anant Goenka:** We are looking at very small conversion here and there is so as I said that in my view over time in the long-term these capacity utilizations will continue to go down.
- Viraj Kachariya:** And it's not a viable to convert them into radial, right?
- Anant Goenka:** No.
- Viraj Kachariya:** And typically what is the margin differential between a radial tyre and bias tyre if you can just provide some color?
- Anant Goenka:** In truck segment?
- Viraj Kachariya:** Yes across different segments if it's possible.
- Anant Goenka:** That's quite a lot of data. I'm just trying to think... so if you were to largely look at...see passenger cars are all radial so it's largely on the truck side. Truck side depends again player to player but for us largely there is not much difference between the margins of radial or cross ply at this point of time.
- Viraj Kachariya:** Not much...
- Anant Goenka:** Yes there is no difference.
- Viraj Kachariya:** But the point I was trying to get at we are also now seeing this radialization trend even in the small vehicle, it is picking up in two-wheelers one of the players have started in farm segment also. So continuing radialization trend which is underway in truck and bus and since you are also seeing in these segments. So what I am saying is that would it be fair to think that margin centrally for the industry in general to raw material cycles may be relatively lower than what was the case before or it doesn't relate to that?
- Anant Goenka:** Because there is radialization happening?
- Viraj Kachariya:** Yes.
- Anant Goenka:** No I don't think it matters. The competition across categories is the same and I think in my view capability towards developing radial tyres would be again similar across all companies. So I don't see any difference in competitiveness, it's not that there are some players who are exiting the market because of lack of capability in radials or something like that.
- Viraj Kachariya:** Largely if you see our net working capital, couple of years back at some point we used to have a negative net working capital. But over a period of time we have gradually moved to say around 50 days kind of net working capital. So is there any thought process to move back in those lines?

- Anant Goenka:** No I don't think we ever had a negative net working capital. The working capital cycle has largely remained the same over the last 15-20 years so it could be a 2-3 days here and there. But broadly we didn't have at any point of time that I recollect negative working capital. There has been no substantial change in the way we work.
- Viraj Kachariya:** I was talking about 2005-2006 period when it was (-5) and it was in the range of 10 days kind of a thing. Right now it's in the range of around 50 days.
- Anant Goenka:** I can get back to you on that. I don't have that specific data. But broadly to what I know in the last five years I have been there that there has been no specific change in the way we have been handling our inventory or credit days that we give or get from suppliers or customers.
- Viraj Kachariya:** And this last question was on the pricing element, given the kind of RM drop which we are seeing in the moment especially on the crude side, are we seeing most of the players maintaining the pricing or is there a tendency to actually pass on some of the benefits so end consumers especially on the replacement market?
- Anant Goel:** Yes I think some amount was passed on the earlier in the year and then I think it varies category-to-category, I think I mean we look at it category wise where categories are weaker for us if we have to pass it depending on the competitive situation and our capability to compete we take a call on pricing. So in some we may be priced higher than competition, in some cases we are priced lower than competition.
- Viraj Kachariya:** But generally if you see on a long-term basis it's a tendency to maintain the discipline is that understanding right?
- Anant Goenka:** No difficult to say, it again varies market-to-market and category-to-category so there is no specific rule as such.
- Viraj Kachariya:** And the margin differential between radial and bias, you said for the industry how much would it be I mean generally?
- Anant Goenka:** No I can tell you for us, broadly for us there is not much difference between radial and bias truck. In passenger as I said there is no bias capacity.
- Moderator:** Thank you very much. Our next question is a follow up question from the line of Pawan Kumar from Unify Capital. Please go ahead.
- Pawan Kumar:** Could you give us an idea of how much of radialization is there presently in the two-wheeler industry and in the CEAT tyres we manufacture how much of our capacity would be radialized?

- Anant Goenka:** Yes two-wheeler is not radialized at all in fact it would be even less than 1% level of radialization. Even in developed market the level of radialization is very low. So radialization I don't see happening in two-wheeler segment even in the next 5 or 10 years. I see 10 years hence radialization may reach 3%-4% kind of level. So radials are largely used in high-performance bikes, in commuter bikes we have not seen radials anywhere yet so it will be extremely-extremely low. Today the market maybe I mean broadly between 0 and 0.5% radialized.
- Pawan Kumar:** What would stop this radialization in the sense, how much higher would the radialized tyre be than a normal bias tyre for the two-wheeler?
- Anant Goenka:** About 4x. So if a two-wheeler commuter bike price is about Rs 1500, a radial imported bike could be as high as Rs 7000.
- Pawan Kumar:** And another question I had was regarding the exports in the sense you had talked about the TBR segment as such that due to radialization our sales were getting affected. So what are the measures we are taking to counter that in the export segment, can we do anything about it?
- Anant Goenka:** The measure would be can we sell more and more of our newer radial capacities going forward so as Halol capacity of passenger car radial is expanding, can we sell some of these new capacities to exports that is the only way we see going forward on increasing exports. Very unlikely that we will see increased sales of bias category tyres.
- Pawan Kumar:** Sir this plant can be utilized to manufacture two-wheeler tyres?
- Anant Goenka:** Technically it can but it is a fair cost so it could be possible but we are not looking at doing that at this point of time.
- Moderator:** Thank you very much. Our next question is a follow up question from the line of Ambrish Mishra from JM Financial. Please go ahead.
- Ambrish Mishra:** Can you share as to when it comes on export revenues I think this quarter we have clocked something like 200 crores and as you mentioned the volumes are down by about 5% odd year-on-year. Do you see this probably the bottom or we would say that we don't know where the bottom is and this trend may continue for some more time and before it really gets to the bottom?
- Anant Goenka:** Yes so I think exports going forward if you were to say difficult to give an answer on this. But I think there will be some pressure going forward as well. If you were to look at on a quarter-on-quarter I don't see substantial negative growth going forward. So if you are going to say take this quarter as the base I think it should be going forward at similar level and not much change. So if I told there is pressure on bias sale it should be compensated by our radial sales as well.

- Ambrish Mishra:** So it will be fair to assume that as far as exports are concerned at least they have bottomed if I take 1Q FY16 as the base?
- Anant Goenka:** I think so.
- Ambrish Mishra:** Because I also sense that the pressure in exports have been adversely affecting our ability to have better margins from what we have been reporting. So in case exports have bottomed so is it fair to say that the adverse implication of stress in the export market on margins is behind us?
- Anant Goenka:** I think if you were to say for example we feel that earlier exports used to be a large share of our sales or relative a larger share of our sales in comparison to competition of what we understand and that is the area that has got hit the most and therefore affected our margins. I think I would tend to agree with you, it's a little bit of a broad data view that I am sharing that a negative impact that has happened will not get further exacerbated going forward.
- Ambrish Mishra:** And this last one question, what's your thought on domestic bias truck and was demand outlook domestic, if I missed I don't know if you shared that earlier.
- Anant Goenka:** It's largely been flat so we are seeing good growth on the truck side in general because the base itself has been very low on the M&HCV side. So on the OEM side we have seen 20% growth of the OEM segment of automobile in M&HCV itself. So with that happening I think that there is good growth, much higher growth on the truck radial side but bias has largely remained on flat kind of growth.
- Moderator:** Thank you. Our next question is a follow up question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** An MNC player trying to set up the two-wheeler tyre business in India, tying up with the domestic player as you know as per media reports, your view on that and implications on the segmental margin as two-wheelers are the best margin drivers for your business.
- Anant Goenka:** I think the volumes are quite low so I don't think it should have any impact on us.
- Basudeb Banerjee:** And any possibilities of scaling up as such?
- Anant Goenka:** For them?
- Basudeb Banerjee:** Yes.
- Anant Goenka:** You will have to ask them.

- Basudeb Banerjee:** Second thing sir any update on the antidumping duty of Chinese tyres as you are one of the leading players so you must be having a better idea what is happening actually?
- Anant Goenka:** So we are applying to the government about a month ago. What I understand is the process takes at least a year's time so for next year we are exposed at least.
- Basudeb Banerjee:** So one should not expect anything happening in FY16 per se?
- Anant Goenka:** Yes I don't think so.
- Basudeb Banerjee:** And sir last question is if I see your balance sheet, your net debt-to-equity presently is pretty clean courtesy the good cash flows through strong margin and the QIP which you did. So even if you are taking care of you are funding for all these CAPEX your debt-equity will be pretty much low. So any plans of organic any kind of step to grow beyond as such, any thought on that line?
- Anant Goenka:** For further expansion?
- Basudeb Banerjee:** Yes.
- Anant Goenka:** Nothing right now so there is enough we have on our plate. We have to make this happen and then see if this sell well then we'll look at the next phase.
- Basudeb Banerjee:** No global target as such as of now any plans, nothing like that?
- Anant Goenka:** No, nothing yet.
- Moderator:** Thank you very much. Our next question is from the line of Shraddha Seth from Edelweiss. Please go ahead.
- Shraddha Seth:** Wanted to understand as our business model is structurally shifting to in-house production and two-wheeler as compared to outsource model, obviously our asset turns and all will be quite different and obviously of return ratios also we look quite different. So just wanted to understand how does that pan out as compared to the previous business model, what are the ROCEs of the new business model that we have internally worked?
- Anant Goenka:** So for us strategically two-wheeler was becoming more and more important when we got into outsourcing as a model we were barely doing couple of lakh tyres per month. It was about 5% our sales and that grew organically over time and slowly as things started getting better and it became our focus area. We felt that we need to hedge this risk for having one partner and therefore we said let's look at an in-house capacity. With in-house capacity coming in we expect our operating cost to be lower but of course with outsourcing there was zero CAPEX so ROCE was infinite in a way purely for the two-wheeler business. But for this of course ROCEs

would be lower than going for outsourcing but generally the IRRs for these projects would be clearly at about (+25%) level.

Moderator: Thank you very much. Our next question is from the line of JM Parekh from JMP Capital. Please go ahead.

J. M. Parekh: Mr. Goenka my question is mainly on two-wheeler segment. Currently what is our total capacity including outsource for two-wheeler in terms of number of tyres per month?

Anant Goenka: 11 lakhs tyres per month.

J. M. Parekh: And while replying one of the questions you said that in two-wheeler segment the market share for OE is about 19% so replacement market you said around 30%.

Anant Goenka: Around 25%.

J. M. Parekh: So can you specify who other competitors having other major shares?

Anant Goenka: Yes so you have MRF Tyres, TVS Tyres, Birla Tyres, Metro Continental, Ralco, all these tyres are there.

J. M. Parekh: But who is commanding major share if you can share?

Anant Goenka: I think MRF Tyres would be having the largest market share.

J. M. Parekh: With OE as well as with replacement?

Anant Goenka: Yes.

J. M. Parekh: And in terms of all these segments if we divide all the segments into two-wheeler segment, export and rest of the segment, we have to divide EBITDA for these three segments, is it possible for you to give us some numbers in terms of EBITDA?

Anant Goenka: No difficult to give a number on that.

J. M. Parekh: This two-wheeler segment at least can you share EBITDA for two-wheeler segment?

Anant Goenka: No.

Moderator: Thank you very much. Our next question is from the line of Disha Sheth from Anvil. Please go ahead.

Disha Sheth: Sir in terms of two-wheelers just for the industry last time you mentioned there was shortage of tyres and we were in lack of capacity. How is the situation been in this quarter?

- Anant Goenka:** Yes that continues as well right now.
- Disha Sheth:** So the replacement market for the industry is growing very strongly?
- Anant Goenka:** Yes.
- Disha Sheth:** And sir exports have been de-grown by how much percent in terms of volume and value?
- Anant Goenka:** Somewhere around 15% or so.
- Disha Sheth:** In terms of volume?
- Anant Goenka:** Yes.
- Disha Sheth:** And value would be more?
- Anant Goenka:** No it would be roughly between 14%-17% kind of levels in value and volume terms.
- Disha Sheth:** And sir you mentioned that truck and bus volumes have been flat but OE, M&HCV has grown by 20% in terms of volume. So has replacement de-grown?
- Anant Goenka:** No by OE, this is for the industry by OE has grown at that level so I'm talking about M&HCV, automakers sales have gone up by 20%.
- Disha Sheth:** For CEAT how much would be OE and replacement in truck and bus?
- Anant Goenka:** Both have been largely the same, OE has grown slightly faster than replacement. So while replacement has also grown, OE has grown by little bit faster on the truck and bus side because of the revival of OE sales.
- Disha Sheth:** The price cut that we have taken would be more on the truck replacement side or passenger, two-wheelers, mostly on truck replacement?
- Anant Goenka:** No it varies again SKU to SKU. I would say there has been a higher cut on exports side.
- Disha Sheth:** In terms of Bangladesh do we have any thought of changing into from bias to radial as hence 5 years again the things will turn into radialization even in Bangladesh?
- Anant Goenka:** We set up a very small truck bias capacity so out of the 60 ton per day plant we are only talking about 15 ton per day of truck bias so to that extent 15 tons per day will easily sell even in the next 7-8 years.
- Disha Sheth:** Rest would be PCR?



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Anant Goenka: Yes it will be PCR, two-wheeler, and little bit of farm, etc.

Moderator: Thank you. Ladies and gentleman that was a last question due to time constraint. For further queries you may contact the IR team for CEAT. Members of management, would like to add any closing comments?

Anant Goenka: No, thanks a lot for coming on for the call and thanks Macquarie for organizing it.

Amit Mishra: Thank you sir for giving us this opportunity and thank you all participants for joining us on the call.

Moderator: Thank you very much Mr. Mishra and members of management. Ladies and Gentlemen on behalf of Macquarie Securities that concludes this conference call. Thank you all for joining us and you may now disconnect your conference lines.