



“CEAT Limited Q4 FY2016 Earnings Conference Call”
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ANALYST: **MR. MIHIR JHAVERI – RELIGARE CAPITAL
MARKETS**

MANAGEMENT: **MR. ANANT GOENKA - MANAGING DIRECTOR –
CEAT LIMITED**
 **MR. MANOJ JAISWAL - CHIEF FINANCIAL OFFICER –
CEAT LIMITED**

Moderator: Good day ladies and gentlemen and welcome to CEAT Limited Q4 FY 2016 earnings conference call hosted by Religare Capital Markets Limited. As a reminder, all participants' 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 any assistance during this 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 over the conference over to Mr. Mihir Jhaveri from Religare Capital Market. Thank you and over to you Sir!

Mihir Jhaveri: Good evening ladies and gentlemen. On behalf of Religare Capital Markets I welcome you all for the Q4 FY2016 earnings conference call for CEAT limited. Today we have with us from the management Mr. Anant Goenka, Managing Director, and Mr. Manoj Jaiswal, CFO. With this I would like to hand over the floor to Mr. Goenka for his opening remarks. Over to you Sir!

Anant Goenka: Thank you very much. Good evening everyone and a warm welcome to CEAT investor call. I am Anant Goenka and I have Manoj here with me and I will briefly take you through our results and a few key parameters and I will be happy to take questions after that.

On a year-on-year basis for Q4 we had a negative growth of 2% driven mainly by volume growth of about 8% and price and mix contributed to negative 10%. Raw material prices have come down well by about 15% on a year-on-year basis. A large part of this benefit was passed on to all segments like replacement, OEM and export segments. The 8% growth was mainly on account of strong growth in the domestic market which grew by over 10% for us, both replacement and OEM markets have grown well but exports has shown a negative growth of about 8%. Passenger segment, our focus areas have continued to grow well at over 20% on a year-on-year basis.

On quarter analysis Q4 FY2016 versus Q3 FY2016 we have registered about 4.7% revenue growth mainly driven by strong volume growth of about 9%. Price and mix contributed to about negative 4%. In terms by segment, OEM has grown by about 20% while other segments have grown slightly about 5%.

Overall in FY2016 for the year we have registered a flat revenue growth and volume growth of about 7%. As I shared even for the year passenger segment has grown at over 20% growth. So our product mix is moving more and more towards our focus areas of motorcycles, passenger cars and UV and together they contributed to about 40% of our revenue. From a market segmentation perspective, OEM and replacement markets have grown by 10% for the year. Exports have shown considerable negative growth in the year by over negative 15% growth on account of increasing radialization, currency depreciation in several of our exporting countries and increased Chinese presence in these countries. Chinese products continue to flood the market both in replacement as well as international markets and this has impacted our topline to a certain extent.

FY2017 was strategically a good year for us. We strengthened our R&D in terms of investment in infrastructure. We have entered into various partnerships with leading technical institutes. We have also as a result come out with some great products and entered new OEM like Renault Nissan, Royal Enfield in the beginning of the year. We have been the first source for number of new tyres like the Himalayan, which is an iconic tyre for Royal Enfield, the Navi that is again a new experiment by Honda. We also were there with Renault Kwid and Mahindra TUV 300 this year, two successful compact SUV launches that have happened in this year. We continue to focus on enhancing our brand equity through effective marketing communication and we recently launched our SUV ad campaign titled “Our Grip Your Stories”, which really highlighted the premiumness and focus on safety of CEAT. We also continue to strengthen our association with cricket by continuing to be the strategic timeout partner for IPL and getting on to bats of various cricketers. We are also focusing a fair amount on corporate social responsibility where we have our project Swayam, which is largely to do with women empowerment getting women to become drivers. Here we placed about 170 women last year, this we have taken up over 1000 women in the current year, so a big jump in terms of placing women. We are also focusing on vision on the road, so there is large amount of lack of visibility on blindness which even people are not aware of the powers etc., that they have in their eyes particularly truck drivers. So we are focusing on that as well in a big way, which has made a large amount of progress in the year gone by.

On the project front I am delighted to share that we were able to commission our Nagpur plant in record time in just about 10 months time we were able to set up our plant and it has started producing tyres effective February of this year. We also commissioned our Halol plant this year in September of 2015 and on the Bangladesh front we hope to get the clearance on the land issue in the very near future. Going forward on the raw material front raw material prices have gone up quite considerably in the recent past particularly in the last one month, which may have some impact in margins going forward particularly from Q2. However our focus is continuing to be towards improving product mix, towards higher margin businesses and increasing our volumes with our new capacities that have come in. We hope to mitigate some of the input cost increase that has happened in the last month. I now hand over the call to Manoj Jaiswal who will take you through some of the key financial parameters.

Manoj Jaiswal:

Thank you Anant. Ladies and gentlemen good evening. I would now present the financials primarily focusing on the P&L account and the balance sheet analysis. Let me just touch upon the gross margins for the quarter. Gross margins have expanded by 380 basis points from the same quarter last year to 44.5% while declined by 80 basis points on a Q-on-Q basis. EBITDA quantum rose by 5% year-on-year to Rs 195 Crores while declined by 4% on a quarter-on-quarter basis. The margins have expanded by 70 basis points year-on-year to 13.4% and declined by 130 basis point on quarter to quarter basis.

Company's net worth has gone up to Rs 2,065 Crores as on March 31, 2016 from Rs 1,682 Crores last year on the same date. Consolidated debt stood at Rs 670 Crores as on March 31, 2016 from Rs 725 Crores sequentially and Rs 775 Crores on the same date last quarter. For the full year FY 2016 the financial update gross margins have expanded by 610 basis points to 44.2

from 38.1. EBITDA rose by 21% to Rs 822 Crores, margins up by 255 basis point to 40.5%. Finance cost has come down by 31% from Rs 132 Crores to Rs 91 Crores largely due to reduction in borrowings and improving interest rate. PAT to net sales have expanded by 230 basis point to 7.9% and profit after tax for financial year 2016 stood at Rs 446 Crores a growth of 41% over the last year.

On a full year basis debt equity has come down to 0.3 from 0.5 times last year. Debt EBITDA has come down to 0.8 from 1.1 times. EBITDA to interest cover has moved up to 9.1 times to 5.2 times last year. The return on equity and return on capital employed net of tax for the year stands at 24% and 17% respectively. Update on Sri Lanka, on a full-year basis revenue remained relatively flat on both volumes and value basis at Rs 432 Crores compared to last year. EBITDA margins have expanded by 120 basis points to 24%. EBITDA rose by 3% to Rs 105 Crores. PAT rose by 3% at Rs.73 Crores. With this we now open the question and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ambrish Mishra from JM Financial. Please go ahead.

Ambrish Mishra: Congrats Anant on good set of numbers. I had just two questions. One last quarter you mentioned that FY2017 the new capacities would roughly operate on an average utilization of 40% both Nagpur and Halol. So do we still maintain that view that in capacities will give 40% output in FY2017 and the second question was more on the raw material spike that we have seen in last one to two months? How sustainable do you see these prices and if it continues to be this way for let us say next six to 12 months how you see the pricing move in different categories?

Anant Goenka: I will take your first question, Nagpur and Halol getting utilized at 40%. So Nagpur is coming along well no track. We are as per what we have planned. By 40% I think we are talking about 40% of the rated capacity at that time. So Nagpur is going to be about 120 tonnes per day plant by 40% I am not talking about 40% of 120 tonne but 40% of the average capacity that would be there for there for the year. So in my view I think Nagpur is currently operating at about 15 tonnes per day. So it will reach about 120 tonnes in about a year and a quarter from now. So just to give you a broad estimate I would say it would be somewhere around average for the year would be about 50 tonnes per day approximately kind of utilization closed to 40% of the entire capacity and on Halol we are also on track, things coming along well. We had a little bit of a slowdown between November and February but things are back on track this year. With respect to raw material price increase I think none of us expected such a large increase from Rs.95 per kg for rubber to go up to Rs.142 per kg in such a short time. What I gather is first of all there is clearly a situation of drought in India where supplies have got curtailed substantially. So production is actually at very low levels today. This should get reversed from end of May, June onwards when early rainfall starts. So that is the India situation. The outside India situation there is couple of things that have happened. One is that we found that Malaysia, Indonesia and Thailand have got together and start supplies to a certain extent as well as some amount of El Nino effect of weather conditions outside so that has curtailed supplies to a small extent. Demand

in my view has not really picked up and therefore I think is largely a supply constraint. Difficult to say now whether this will get resolved. I think India things will get resolved. Outside of India I do not have an answer yet. We are still gathering some data to figure out what is going to happen but tough to say because India will eventually follow international prices. I do hope that by July onwards we can see some of reduction but I say I would never predict that rubber would have gone up from 90 to 140. Tough to say what will happen going forward.

Ambrish Mishra: Connected to the same was my question on how do you see assuming let us say worst case of prices remain the way they are, different categories reacting on the pricing front?

Anant Goenka: Yes so until now we have been really on price reduction trend. So we took about a 3% to 3.5% price cut in Q4. They were some price cut even early April before, particularly in the two wheeler segment. So with this, I think price drops will get restricted, it is still difficult to say because it is gone up so sharply. I think we would wait and watch first of all depending on what competition does and second I would still wait and see whether this raw material prices going to be volatile or it will stay stable for sometime. So I do not see any impact on any price increase happening at least in the near future. By that I am saying that one month I would rather wait and watch till things stabilize. In terms of our purchase also we have covered till mid or end June. So to that extent Q1 raw material prices will continue to remain at slightly lower levels. Q2 the impact will really hit us.

Ambrish Mishra: Thank you so much all the best.

Moderator: Thank you. Next question is from the line of Sandeep Patel from Hornbill Capital. Please go ahead.

Sandeep Patel: Thanks for taking my question good evening to Manoj and Anant. Just wanted to check with you couple of things. Is there a longer term hedging policy that you will start looking at now and the question is standing from the worries on the raw material volatility. The other thing wanted to ask you more on the housekeeping time is tonnage for last year and this quarter if you could help us and one last thing was on the expected growth rate for the replacement market.

Anant Goenka: On the hedging front for raw material, it is really very difficult to hedge because in the end you do not have a big selling price. Your selling price can change if your raw material price go up or go down. Therefore what we can do some additional buying and some covering for about a month, months and a half, two months additional cover based on our intelligence and based on our expectation of where raw material will move. So it is not really a hedge it is more of a call that we take based on what we feel will happen to raw material. So I do not think anything further can be done with respect to really hedging of raw material. With respect to volume growth we did share with you that we had a growth of 7% in volume terms on a year-on-year basis. Exact tonnage I would not be able to share with you but this is the volume growth and could you share again the third question.

- Sandeep Patel:** The replacement market volume growth that we expect for this year.
- Anant Goenka:** I think replacement volume growth will be better this year than the year gone by. I think replacement volume in the year gone by has been at about approximately 8% or so. I think it could be somewhere between 8% to 10% although difficult to give a number. It should be a little bit better coming year because we are seeing some positivity in commercial vehicle, which is the large growth. Rural areas also looking to be positive which was negative last year. So two wheeler and farm tyre we are seeing some good demand as well.
- Sandeep Patel:** Could I squeeze in one last question if you do not mind. So just on the exports side I heard Manoj say on one of the television channels in the morning today that the exports will pickup. So could you throw some light on what will drive the growth for exports?
- Manoj Jaiswal:** Yes on the export front see what happened is that we have shown a negative growth this year of greater of 15%. So to that extent I think negative growth will be arrested and there could be a shift from negative towards marginal positive growth because I think we have kind of plateaued or valleyed to a certain level in export. So I will not say there is a large growth potential. To a certain extent we are shifting our product mix towards more passenger car radials and two wheeler tyres even in export. So that is the shift we are doing. So from the negative 15 we could see a marginal positive growth but not a dramatic shift as such.
- Sandeep Patel:** Thank you for answering my queries.
- Moderator:** Thank you. Next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir how much of price cut in two wheelers at the beginning of the answer.
- Anant Goenka:** We took a price cut of somewhere around 5% to 7% depending on which SKU etc that you look at.
- Ashutosh Tiwari:** This is despite the fact that RM prices were going up in April and March also they went up right so it is prompted by price cut by competition.
- Anant Goenka:** That is right in part that but this was just before or just around the time not to the extent where raw material prices gone up. I do not recollect the exact level but may be it gone up from 90 to 105, 110 and not to 140 levels when the price cut decision was taken.
- Ashutosh Tiwari:** Was there any price cut in four wheeler also in last three four months.
- Anant Goenka:** Yes there was a price cut in January or so for commercial vehicles as well as passenger car tyres of 3% to 5%.
- Ashutosh Tiwari:** Sir the Nagpur plant that is coming up you said 50 tonnes per day will be the utilization level in the current year. So will a major part of that go towards OEM or will that be correct.

- Anant Goenka:** No it will be mixed between OEM and replacement both. There is no fixed formula that it would go to a certain ratio because we may choose to prioritize based on old capacities that we have and new capacities. So between the two plants I say the ratio will not change substantially.
- Ashutosh Tiwari:** Volume growth was how much in two wheelers in last year full year overall.
- Anant Goenka:** Over 25%.
- Ashutosh Tiwari:** Your outsource capacities are running at full right now.
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** Sir now that raw material prices have gone up so the gross margin further declined in first quarter or it will decline in second quarter you said you; you are covered for the first quarter as such.
- Anant Goenka:** Yes on the raw material side we think the raw material side will start going up from Q2 may be marginally from Q1 later half onwards because I think from June 15, 20 we will have the higher cost material coming in and we seen some price cuts. So yes there will be some pressure on gross margin early this year.
- Ashutosh Tiwari:** Any update on anti-dumping duty on Chinese tyre?
- Anant Goenka:** No I think the application is still in, we have not heard anything further about anti-dumping duty yet. We hope to hear sometime may be in a month's time it is been nearly over 10 months since we have applied. We have applied in July or so last year. So we should hear anytime soon. Some debate going on whether it should include OEM purchase, buy OEM tyres as well so there was some debate internally whether they can separate tyres going in to OEM and to the replacement market but we cannot do that. So anti-dumping duty is applied will be applied to all tyres. That may cause a little bit of delay, I know that there was some debate happening.
- Ashutosh Tiwari:** I mean you believe that likelihood of that happening.
- Anant Goenka:** Tough to say I say 50% chance.
- Ashutosh Tiwari:** Okay Sir thank you so much.
- Moderator:** Thank you. Next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar:** Sir first thing I would like to understand is because our various product categories if I understand that has been a 20% increase in raw material prices especially rubber you see no scope of raising the raw material I mean end product prices right now because I thought the cost impact would be very substantial right now right.
- Manoj Jaiswal:** I think on the raw material front there could be an impact of about 5% to 7% not 20%.

- Pavan Kumar:** Yes so it will come to around 8%.
- Manoj Jaiswal:** No I think it would be about 5%, 7% because all other raw material generally are okay so rubber itself is not a very large is not the only raw material to that extent.
- Anant Goenka:** Also you also factor in the fact that as far as OE is concerned significantly it is indexed for the raw material price change. So the impact will not be exactly linear the way you may be calculating it.
- Pavan Kumar:** How much of our sales would be to the OE as of now.
- Manoj Jaiswal:** 25% is to OE.
- Pavan Kumar:** Okay 25% fine and what is your outlook going forward in 2017 can we expect any kind of double digit volume growth going forward. What is your outlook on the same?
- Manoj Jaiswal:** I think the positive thing is that the negative growth that exports was really causing to cancel out the positive growth of domestic that will stop. So therefore I think that we will see better growth in the coming year. So as I shared that we have seen a volume growth of 7% to 8% in the year gone by and growth should be better in the year coming forward. So maybe it is somewhere closed to double digit what we are hoping for.
- Pavan Kumar:** Anant if you can share any information on when there have been good year with good monsoons. What has been the peak volume growth in the recent year?
- Anant Goenka:** I do not have specific numbers on that but I would say that would largely affect rural economy product like two wheeler and farm etc. So those are the areas where the demand can get affected. If I recall in the last year, farm had negative growth of may be 25%, 30% at least during the difficult time in the auto industry itself. This year we expect that entire trend to reverse. So this very good positive demand coming in from the farm segment. So it is quite volatile. I would not say that the gap can be quite high from a negative 20 or negative levels to substantially high positive levels because of base effects also that come in.
- Pavan Kumar:** I will get back in the queue.
- Moderator:** Thank you. Next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** I just want to know what is the total capacity and breakup. Total of all plants taken together.
- Anant Goenka:** About 900 tonnes is our capacity, tonnes per day and breakup between the plants.
- Mayur Milak:** No I mean out of this how much would be readily huge available for realization kind.

- Anant Goenka:** So if you were to look at the category level commercial vehicle are at about 47%, 48% of our total tyres and farm tyres would be somewhere around 7%, 8%, motorcycles and scooter at about 25%, passenger car and SUV would be about 10%, 12%. So that is the rough breakup of our key capacities that are there in terms of category wise. In terms of radial versus non-radial would largely be relevant in the truck segment were about 25% of our revenues come from truck radial.
- Mayur Milak:** While you mentioned the volume growth and the realization drop happening and as you also mentioned that despite that steep hike of almost 50% in rubber prices you do not really foresee price hike immediately and you ready to probably wait for a month or so but what I am trying to analysis is while the details you already read the best phase of probably the tyre industry is done with the kind of sky high margin that the industry witnessed. So you think that we could actually keep this as a regular feature.
- Anant Goenka:** Keep this margin as a regular feature.
- Mayur Milak:** Yes.
- Anant Goenka:** Our endeavor is that but I do agree that yes there is some pressure on margin now. I would say difficult for me to say really whether margins would stay at this level or come down. I can say that clearly in Q2, I do expect some pressure to take place unless raw materials come down to lower levels and supply picks up.
- Mayur Milak:** Alright but assuming that if the same trend continue I think somebody has already asked you that. So do not you think taking of price hike could actually keep help you maintain margin in that sense but that again you are seeing will be dependent on completely what competition does.
- Anant Goenka:** That is right. We are working on that, today our balance sheets are far healthier, interest costs are much lower. We are able to invest a lot more on future growth, R&D and such thing. So to that extent the company is much, much healthier in a way to look at further growth opportunities and strategically strengthen our sales in a much better way going forward. So I say the challenges that companies are faced in the past are very different from what we will face going forward.
- Mayur Milak:** Alright thanks.
- Moderator:** Thank you. Next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.
- Ronak Sarda:** Thanks for the opportunity. Quick questions I will again upon the raw material part can you highlight what is the inventory we have and then how much are we covered and just breakdown into both.
- Anant Goenka:** Yes we have inventory of whether it is on high seas or whether that is on in our plants etc as I said till about middle of June.
- Ronak Sarda:** Both included. Are we covered till middle of June?

- Anant Goenka:** Yes.
- Ronak Sarda:** And obviously all the new prices would have been happening at the higher end of 140 or more averaged out during the period because the hike price jump was pretty sharp.
- Anant Goenka:** Buying has been generally at low levels at this point of time. Supplies itself are quite low at this point. So that is where we really stand. So we were doing minimal buying on a day-to-day basis whatever is needed we are buying at that level now. Because we do know that in the next one month there will be or over next 15 days will be challenging from a production point of view. There is actually no rubber that is getting tapped from trees in India. So we need to wait for the first rainfall in Kerala which comes in by after May 20.
- Ronak Sarda:** Secondly bit longer term question I mean the two wheeler phase we have heard that JK Tyre and Kesoram both Birla Tyre basically are entering this market following the same strategy with CEAT has followed. I mean is that putting more pressure on your competition competitive scenario in the industry or I mean do you think there is enough space for all the players to exist and have a good breeding space.
- Anant Goenka:** What I do understand JK acquired this Haridwar plant of Birla Tyre. Birla Tyre was anyway running its two wheeler capacity at full capacity which I think in somewhere around 5 - 6 lakhs tyres per month that is going to continue therefore so it is not going to really increase the number of capacity, number of tyres coming out but it will be a different owner who will therefore be selling it or different brand that will be selling the two wheeler tyre. So that is what we understand. Now whether if they take a call to increase capacities at some point of time then there will be increased supply but with this changeover I do not see any increased supply coming in. It is a changeover from one player to another right.
- Ronak Sarda:** Yes it is but Birla Tyres obviously increasing their outsourcing capacity and they are planning more effective spares in the two wheeler space.
- Anant Goenka:** Okay fair it may come in there, but I still say that we have a very strong distribution, strong brand. We are investing a lot on that. So we are a little bit ahead and hope will stay on there in that. There are lot of focus for us is also going to be on two wheeler space.
- Ronak Sarda:** Question more on the anti-dumping duty side. There are some reports saying that the Chinese imports have come down sharply after the domestic players have cut prices. I mean is that what you also think is it or I mean there is lot of Chinese import it does not get captured in the earned data which circulated I mean there was some news that it does take 5% of the total industry volume is now the Chinese imports. Is that true or I mean is still a big chunk and it is really captured in the overall data.
- Anant Goenka:** No, on the truck space in fact I will say that there has been a large increase not on a quarter-on-quarter but on a year-on-year basis over 60% - 70% increase in the number of truck tyres coming

in. The only area where you can look at some data say for example if you look at total number of tyres and you look at the market including two wheeler tyre the entire data get skewed because the number of two wheeler tyres in the market is very large. If you say out of 1 million two wheeler tyres you have 5000 truck tyres coming in. The entire I mean as a percentage it may be low but as a volume it will be very different. So it depends how the data is looked at. So if you purely look at the truck market or the truck radial market their market share would be over 25%. So there is a huge and truck is about 40% of the entire or 50% of the entire auto segment for tyres in India. So there is I do not see any reduction in Chinese tyre coming into India.

Ronak Sarda: Okay perfect thanks a lot.

Moderator: Thank you. Next question is from the line of Basudeb Banerjee from Antique. Please go ahead.

Basudeb Banerjee: Thanks Sir for taking my question and congrats for good set of volume numbers. Few questions. One Sir as you rightly indicated that gross margin is under pressure and down the line there is still further incremental uncertainty. On that background if we see your branding and marketing expenses are also gradually ramping up and opex is almost Rs 1,247 Crs, which is at a multiquarter or multiyear high. So may be this quarter Asia Cup and 20-20 World Cup all those things got clubbed together. Next quarter there might be IPL, next quarter there can be Diwali something or the other. So do you see that there can be some scope of managing other expenses with the downward bias in a scenario where gross margin is going adverse?

Anant Goenka: Thanks Basudeb but I think we will be continuing to focus on investing in marketing whether margin get impacted or not we will continue to focus on the brand. I do agree with you that the first half of the year is generally higher focused because of the various cricketing event and to that extent with IPL and Asia Cup where we have been present there is a larger share out there but I do not plan to cut marketing in fact I would say in FY2017 we may increase our marketing spend.

Basudeb Banerjee: Second thing Sir what is the size of two wheeler tyre market as of now as per your ballpark figure.

Anant Goenka: About 3 million tyres.

Basudeb Banerjee: In Rs Crores Sir.

Anant Goenka: Rupees Crores it would be about 5000 Crores approximately.

Basudeb Banerjee: Industry growth and you grew by around as you said 20% plus. So what would have been the industry growth in the same time?

Anant Goenka: I would not have the data of the tyre industry growth of the year because the data is not yet shared but in my view it would be around may be 5% to 10% kind of growth level.

- Basudeb Banerjee:** Any picture if you can give that through what areas you have been gaining the market share in a huge way in the two wheeler tyre market, replacement or OEMs and even in OEMs, which have the two segment which you, are gaining shares from others.
- Anant Goenka:** Yes so our OEM we have growing of course very well. We have entered Royal Enfield, our share of business with Bajaj has increased substantially. We have 30% plus share of business with Hero MotoCorp, whether with all OEMs in a way and we have growing quite well in the OEM category for motorcycle as well as scooter both categories we see good growth. With respect to even in the replacement segment we have seen good growth. Overall we have seen a growth of over 25% as I shared over 30% in the OEM segment and over 20% in the replacement segment.
- Basudeb Banerjee:** Sure Sir what is the broader things like as per media reports tyre market in India is closed to about 45,000 to 50,000 Crores. So two wheeler tyres is around 10%, 12% of overall market and even if it the industry grows by say 10% CAGR. Your growth cannot be 25% on a sustainable in the longer run. So truck tyre as a percentage of market still is at big 50% and TBR being the theme of the market down the line. And your TPD capacity in TBR being lower than all the major players. So in the longer run from a strategic angle any chances of yourself focusing on TBR down the line.
- Anant Goenka:** Yes so I think in the TBR segment, we may not play to win. We may be playing to be relevant in the market. We will be playing to have great products in the market to be a premium products towards coming out with future centric product but not necessarily being the largest in market in truck radial but clearly we will be looking at winning in the two wheeler segment and other categories that we are looking at. So yes TBR we hope to increase our share of business out there and market share out there even in the near term. We have some great products that we will be launching going forward and we are excited about that as well.
- Basudeb Banerjee:** So basically thinking your 600 to 700 Crores capex in FY2017 for Halol, Nagpur and Ambarnath. Post that can we see a potential new phase of capex for TBR in a big way because TBR total TPD is nearly 100 for you. Any thought on that.
- Anant Goenka:** We have not made any decision on that yet. I still say that our utilization levels are not 100% in truck radial. So once that we reach a full utilization we will take a call going forward on that.
- Basudeb Banerjee:** Last question Sir in the presentation you mentioned the plans of Ambarnath facility of highway tyre. So what are the target market so whether it be domestic or similar to Alliance or Balkrishna and what is the target margin will it be similar to your existing margin or will be similar to the typical of highway high margin.
- Anant Goenka:** Our markets will be largely Europe and US and the margin should be somewhere in a similar range to those of our highway tyre competitor which could be somewhere of around 18% that level.

- Basudeb Banerjee:** Thanks Sir that is all from my side.
- Moderator:** Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.
- Aditya Makharia:** Just wanted to check how is the on ground demand currently for two wheeler not for you but at the industry level and even for passenger car.
- Anant Goenka:** On ground demand for two tyres or two wheeler automobiles.
- Aditya Makharia:** Tyres.
- Anant Goenka:** Two wheeler tyres I say in the last six months we have seen some amount of slowdown in demand. So what happened is particularly OEM demand has come down which has resulted in some amount of capacity shifting towards the replacement market and therefore demand supply has also reached a comfortable equilibrium. We are now looking at increasing our distribution presence etc but in my view going forward for the coming year with lot of positivity about monsoon and rural push in the budget, I do feel quite positive with respect to motorcycle and scooter growth. Scooter, which was growing at about 25% earlier, has come down to about say 12% to 15%. This is at a automobile level kind of data that I am sharing with you and motorcycle at an industry level has also come down to may be as I said about between 5% and 10% kind of growth.
- Aditya Makharia:** So are the replacement tyres for two wheeler not showing any pick up or not really.
- Anant Goenka:** No replacement as I said that lot of supplies have got shifted to replacement because of slowdown in OE demand and therefore we are finding equilibrium and demand and supply in replacement at this point of time.
- Aditya Makharia:** Just on the car side.
- Anant Goenka:** On the car side there is positive demand. So we are 100% utilized. We have stock outs at this point of time. We are not able to supply the number of tyres we want and therefore trying to ramp up our Halol capacity as soon as possible.
- Aditya Makharia:** Thanks.
- Moderator:** Thank you. Next question is from the line of Punit Gulati from HSBC. Please go ahead.
- Punit Gulati:** Thank you so much. First of all if you can help me understand what could be your market share in the two wheeler segment and the passenger car segment separately?

- Anant Goenka:** Our market share in the two wheeler replacement segment would be somewhere around 27%, 28% kind of level and in the passenger car segment, UV segment closed to 14% kind of levels and in the passenger car may be about 6% - 7%.
- Punit Gulati:** 14% and 7% is again for the replacement segment.
- Anant Goenka:** That is right.
- Punit Gulati:** How would it be with the OEMs right now?
- Anant Goenka:** With OEMs our market share would be somewhere around closer to about 25% in motorcycle and replacement data difficult to gather at overall level. On OE for this year, may be somewhere closer to replacement levels itself.
- Punit Gulati:** So you mentioned you will try to focus on these two areas. So where do you see the scope for expansion what are the geographies which you have not targeted, which segment do you think is still a lot of scope for you to gain market share.
- Anant Goenka:** We believe generally these categories will grow fast going forward. So if you look at say the developed world, developed world passenger car is about is about 60% - 65% of the entire tyre market. For us it is about 35% of the tyre market is passenger segment. So with per capital GDP growing, with growth happening and more penetration of vehicles in India. I feel that this segment will outpace the growth of commercial vehicle and therefore we are choosing to play more and more in these categories. So it is really riding the wave of growth that I see in the longer term in these categories then in the commercial segment. Not that commercial segment will not grow that will grow as well but I think the speed of growth in this category will be higher.
- Punit Gulati:** Yes but that is more like a 10 year story right I mean in the near term they would possibly still grow at the same level as CV or may be commercial vehicle riding the recent way may go faster than the passenger car. So in that case for you to grow faster than the industry what is the new distribution channels you are evaluating new cities that may be targeting geographies.
- Anant Goenka:** There is a lot happening. So I mean it would be really largely sharing the whole strategy but specifically covers everything around increasing and substantially improving our entire product range coming out with great new products in the market. There are so many new vehicles coming out. New categories like compact SUV growing and coming in. So these are all opportunities where you can further enhance your product range. On the distribution front also we are growing through our dedicated shopees, which allow a customer a much better experience in terms of the tyre buying experience. We are looking at a lot of branding in multi brand outlets because a passenger car customer will want to see multiple brands very often so we need to be present out there. We are enhancing our branding and presence across categories. We have district wise mapping that we do and wherever the white spaces are covering all of that and so on so far so. So

these are the various opportunities that exist and this is how we are trying to look at capturing the market. Just away we have largely seen success in two wheeler hope to replicate that in the UVR and PCR market. It is a little bit more competitive than the two wheeler space and therefore may take some more time but we believe we can do that.

Punit Gulati: Any low hanging fruits you can identify, low hanging targets. May be some geography which you have not targeted at all is there anything like that or.

Anant Goenka: No, no nothing like that.

Punit Gulati: Nothing like that okay and lastly on your capacity utilization. I believe your two wheeler and passenger car capacity is almost 100% utilized right.

Anant Goenka: Yes.

Punit Gulati: What would be the utilization for the commercial vehicle tyre?

Anant Goenka: There also it is pretty high. I would say it is closed to about 83%, 84%.

Punit Gulati: Between TBR and TBB.

Anant Goenka: That is right so by TBR, TBB is somewhat again 83%, 84%

Punit Gulati: Separately I mean even bias side is almost 83%.

Anant Goenka: TBR would be 90%; bias would be about 80% to 83%.

Punit Gulati: Great that is all from my side. Thank you so much.

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

Sonal Gupta: Thanks for taking my question. I guess most of my questions have been answered but so just on the TBR side like you mentioned you are already at 90% and I guess just in terms of I just want to understand like previous speaker one of the question he was asked that you are investing in OHT versus TBR. So I just wanted to get in that sense I mean what is the strategic thing because given that you are running out of TBR capacity as well. So you will restrict yourself to sort of supplying just on the replacement side to whatever capacity you have or just in terms of at a strategic level I mean basically because of OHT you believe is much higher return business and that is why you are investing incremental capex on that side.

Anant Goenka: That is right largely we find that the OHT business is relatively lesser competitive. We have couple of Indian players who are there in the value segment competing against only the larger players like Michelin etc in Europe and US. So we do feel that there is space for one more player to come in because you do not have too many players in that category and a clear labour arbitrage

in this category. So we decided to choose that category. On the truck segment I say we still have about 10% to 12% growth space after which I think we will take a call whether we want to expand there or not.

Sonal Gupta: By when do you expect this capacity on the OHT side to start kicking in?

Anant Goenka: End of this financial year.

Sonal Gupta: Anything you need to go through in terms of validation process etc before you can get into the market in developed markets.

Anant Goenka: So in terms of distribution and brand I say we are already made some headway because we do supply crossply tyres there from our Bhandup plant but I would say with respect to radial tyre yes we will have to test that out in the market. It may take some time. So we are ramping up in phases out here. We are starting off with a small capacity, which will grow larger one. Our product has been tested and we get sufficient confidence.

Sonal Gupta: Just lastly I mean can you tell us exactly I mean in terms of because you are running out of PV capacity as well. So what is the ramp up plan on that side?

Anant Goenka: Passenger vehicle we have just added capacity, which are new plant came on-stream in September of last year. Our capacity until then was about 70 tonnes per day. We have added about 110 tonnes per day capacity, which is about 4 to 5 lakh tyres per month additional capacity. So that is ramping up every month it is increasing. So to that extent we are quite comfortable with respect to supplies in passenger car.

Sonal Gupta: So this will fully ramp up by end of this year.

Anant Goenka: Around about yes it will take about 10 to 12 months to ramp up may be about 12 months 12 to 15 months I say by June; July of next year should be full capacity.

Sonal Gupta: Thank you so much.

Moderator: Thank you. Next question is from the line of Chintan Modi from Motilal Oswal. Please go ahead.

Chintan Modi: Thanks for the opportunity. Sir can you share what is the absolute amount of ad spends that you are looking to 2H and 1H FY2017.

Anant Goenka: No we will not be able to share the rupees Crores amount but it will be possibly slightly more as a percentage of sales over last year.

Chintan Modi: Coming to the margin pressure that you have already mentioned but considering that there could be change in product mix also which can partly offset the margin decline but you still I mean do you think that margins can fall below double digit and come down to single digit.

- Anant Goenka:** Difficult to give numbers. So we prefer not to give any specific numbers on this.
- Chintan Modi:** But any broad idea I mean how much this can impact overall considering that ad spends and the price cut in the raw material price hikes.
- Anant Goenka:** Too many complicated things which will affect margin. So tough to say give your specific number.
- Chintan Modi:** No problem. Just one last thing. Can you share how much new supply is expected to come in FY2017 in the two wheeler and PV tyres?
- Anant Goenka:** I can give you a very broad level number. Approximately 80 to 90 tonnes per day additional capacity coming.
- Chintan Modi:** This is in?
- Anant Goenka:** FY2017 with the two ramp up. We are talking about 110 tonnes per day, 120 tonnes per day total and Halol out of which we will get about 40 there in Nagpur. So on average about 80 tonnes per day additionally.
- Chintan Modi:** But on industry level what is the next capacity expected to come.
- Anant Goenka:** You asked about industry level is it no I would not have that data.
- Chintan Modi:** Okay fine thank you Sir.
- Moderator:** Thank you. Next question is from the line of Krithika Subramanian from IIFL. Please go ahead.
- Krithika Subramanian:** Thanks for taking my question. Sir I just had two questions. One being, you mentioned in your opening remarks that besides the increase in natural rubber you seeing such a trend in any other of your raw material but actually give some industry articles do indicate that in the past one month even synthetic rubber prices have increased by closed to 25% to 30% in the past one month and with crude going up guessing even carbon black and other crude derivative raw material would have increased. So is the data incorrect or you are seeing a total different trend.
- Anant Goenka:** No, the data is correct. You are right that these prices are going up. I think there was a specific calculation, which said that purely based on rubber prices going up our cost should go up by about 20% to 25%. I said that against that specifically I do not see our raw material cost going up to that extent because the extent of increase if you look at purely rubber has gone from a low of about Rs.95 per kilo grew about Rs.140 per kilo today. So rubber has gone up far higher than other raw materials and therefore it would be unfair to equate the 40% price increase in rubber to all raw materials. So yes other raw material prices have also gone up but not to the extent of rubber.

Krithika Subramanian: Sir could you just give us some color on how you are seeing movement in synthetic rubber and carbon black and NTCR, any idea.

Anant Goenka: On NTC and carbon black there is an indexation that would happen. So it would largely so carbon black is related to the synthetic rubber will be largely linked to crude. So it really depends on those two. In addition if you look at I would say Q1 if you compare Q3 numbers, Q3 to Q4 there was a fair amount of raw material correction also. So the negative and positive impact therefore if you were to compare Q3 to Q2 of the next year may not be as high as what you will see the impact having come in Q4 or Q1 of the coming year. So there is actually a one quarter lag between what has happened that you see in the market now and going forward.

Krithika Subramanian: That's right and Sir one more question that I had was how is the pricing and exports generally. I mean will you be able to pass it on in the export market.

Anant Goenka: Export market is again extremely competitive at this point of time. I think right now price increase is a little bit difficult. It just happened so fast in the last three weeks. I do not think we are yet looking at any price increase at this point of time anywhere.

Krithika Subramanian: Okay that is it from my side thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Ankit Jain from Mirae Asset. Please go ahead.

Ankit Jain: Thanks for the opportunity. Two questions. One being if I look into a RM cost per tonne basis particularly for this quarter that has declined significantly Q-on-Q in line with the underlying rubber prices. So do we have seen any sort of a higher inflation in the non-rubber RM particularly for this quarter?

Manoj Jaiswal: There are two parts as Anant mentioned that largely the price reflection happened with one quarter lag that is one so you may not see a direct correlation in terms of how would you see the rubber price in the open market movement versus our cost if you were to do any level of indexation for that matter. So but approximately on a quarter-on-quarter basis there has been about a 5% drop in raw material prices.

Anant Goenka: Not across what has happened is realization and this net impact on a raw material side 4%.

Ankit Jain: No Q-on-Q only 2% decline like RM cost per tonne basis if I get.

Manoj Jaiswal: Definitely but I mean because of counting adjustment but from a pure RM perspective it is a 4% decline happened on a quarter-on-quarter basis.

Ankit Jain: Another thing can you give me absolute amount A&P for last year like.

Anant Goenka: No we would not be able to share that number.

- Ankit Jain:** Thanks and all the best.
- Moderator:** Thank you. Next question is from the line of Aditya Iyer from Centrum Broking. Please go ahead.
- Aditya Iyer:** Thank you so much for taking my question. Most of questions have already been answered but I had one query regarding the two wheeler replacement market where the prices have been cut by 6% to 7% and that has been an incident of new entrance and existing players' sort of entering the presence. So in the light of all these do we so is it right to assume that we may have the threat of losing market share in that segment.
- Anant Goenka:** I think threat of losing market share is always there for all categories at all time for everybody. So I say that yes you have a new player you have to fight them out in the market. It is not we have not lost market share at this point of time and they are going to keep focusing on increasing market share. Our share of spend on branding in two wheeler will be higher than competition. Our focus on distribution and management and R&D focus on two wheeler will outweigh the investment versus competition. So we hope to gaining market share rather than losing but the threat is always there.
- Aditya Iyer:** Okay thanks and I had another question. You spoke about like increasing your distribution presence. So is there anything new that we can see in terms of your distribution strategy and which are something new that you are going to offer to dealer this time in your CEAT shoppes or any sort of new incentive.
- Anant Goenka:** Yes like say for example until recently because of supply shortage we had actually stopping improving our distribution. Improving means increasing our reach, reaching more and more smaller rural towns etc. So we have stopped the expansion process all together. We will now kick start it once again with the new capacities coming in just to increase and improve our reach so today for small town mechanic want CEAT tyres in certain areas where we are not supplying we will start supplying making sure we are able to reach better by appointing new dealers, new distributors in areas where we are not present.
- Aditya Iyer:** Thank you Sir that is all from my side.
- Moderator:** Thank you. We will be taking the last two questions. The next question is from the line of Deep Shah from SBI Cap Securities. Please go ahead.
- Deep Shah:** Thanks for this opportunity. Just to elaborate on the earlier question on the two wheeler segment basically how are you reading competition let us say down the line three to five years and if there any anticipation that Chinese products will hit the segment also. That is my first question.
- Anant Goenka:** On the competitive space difficult to say I say again I believe our competitors are focusing on it from the perspective I think MRF is anyway strong, TVS has also started focusing more and

more and becoming stronger on the two wheeler space. So competitiveness is anyways at a quite high level at this point of time. We have heard a couple of particularly Apollo being the new player coming in. Let us see difficult to say yet what will happen out there. So could you repeat the second part of the question?

- Deep Shah:** Do you anticipate any Chinese competition hitting this particular segment that is two wheelers.
- Anant Goenka:** There has been growth of Chinese tyres coming in but it is much lower as a share of business. I think Chinese tyres in the two wheeler space may be about 5%, 7% or 10% market share at this point of time. So they are coming into the market but segment is far more branded. First of all OEM none of them buy from Chinese players at this point of time. Secondly I would say in the replacement segment again people are brand conscious so I see the impact being relatively low. Also the nature of tyre that gets used in China, Indonesia, Thailand which are all large two wheeler markets are different from those that are there in India. In India the type of tyres in two wheelers that are there are generally say weigh about 3 kilo. The type of tyre or vehicle even that are there in Indonesia and China are more mopeds and electric vehicle which need may be about 1.5 to 2 kg tyre. So is not that whatever is being made can suddenly get exported into these countries easily.
- Deep Shah:** What will be your market share in TBR?
- Anant Goenka:** Market share in truck overall will be around 12%. TBR would be a little lower. Truck bias would be slightly higher than that.
- Deep Shah:** Alright Sir thanks a lot.
- Moderator:** Thank you. We will be taking the last question from the line of Ambrish Mishra from JM Financial. Please go ahead.
- Ambrish Mishra:** Sir my questions have been answered thank you.
- Moderator:** The next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** Just a quick take on the ad spend. So you mentioned that the brand building processes on and typically so in this quarter particularly what would have been the impact on margins purely because of this higher ad spends.
- Anant Goenka:** I would say if you were to compare from Q3 to Q4 may be about 0.75%
- Mayur Milak:** So in basis points could you give me just a fair idea in that.
- Anant Goenka:** Basis points mean 0.75% right.
- Mayur Milak:** 75 basis points and we now expect this to continue here on.



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- Anant Goenka:** No I said Q1 is again a high spend because of IPL and even as an overall percentage we will continue to focus on marketing. So I do not see marketing expenses coming down. Yes on a quarter-on-quarter if you compare Q1 to Q2, Q2 may be a little bit lower and so on.
- Mayur Milak:** Thank you very much.
- Moderator:** I now hand the conference over to Mr. Mihir Jhaveri from Religare Capital Market for closing comments.
- Mihir Jhaveri:** Thank you all and I thank the management for the time and giving us this opportunity to host this call. Thanks a lot.
- Anant Goenka:** Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Religare Capital Market that concludes this conference call. Thank you for joining us and you may now disconnect your lines.