Transcript

Conference Call of CEAT Limited

Event Date / Time : 24th January 2012, 3:00 PM IST

Event Duration : 35 min

Presentation Session

Moderator: Ladies and gentlemen good day and welcome to the CEAT Limited Q3FY12 result conference call. As a reminder for the duration of this conference all participants' line will be in a 'listen only' mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Surjit Arora. Thank you and over to you Sir.

Surjit Arora: On behalf of Prabhudas Lilladher, I welcome you all for this post results conference call of CEAT. From the management team, we have Mr. Anant Goenka, the Deputy Managing Director of the company. I will now request Mr. Goenka for opening remarks and a brief overview of the quarter gone by and to share his outlook for the future. Over to you Sir.

Anant Goenka: Good afternoon and a very warm welcome to CEAT's quarterly investor call. I am Anant Goenka, Deputy MD of CEAT and with me I have Mr. Sunil Sapre, CEAT's CFO. Thank you very much for your interest in CEAT and I will share with you very briefly our results and a few key parameters relating to our results.
The company's gross sales stood at Rs1129 crores for the quarter as against Rs957 crores in Q3 of last year registering a growth of 18%. With respect to EBITDA, we have recorded an EBITDA of Rs60 crores against Rs40 crores in the corresponding quarter last year. However at the PBT level we have dropped to Rs3.5 crores as against Rs7.5 crores last year. And this is primarily because of higher interest and depreciation cost of our new plant at Halol. And then operating PBT percentage to net sales level was at 0.3% compared to 1.7% in the corresponding quarter of last year. With respect to overall raw material cost, raw material cost went up by about 3% over Q2 of this year and was 23% higher than the corresponding quarter in the previous year. We have been taking consistent price hikes and I would say we have been able to catch up a fair amount with respect to price hike and raw material prices. With respect to the revenue breakup in terms of the market segment, the replacement segment which is for us the most profitable segment grew at 12% at about Rs715 crores. The sales in the OE segment grew by about 28% to about Rs181 crores and revenue from exports grew by about 32% at Rs236 crores.
And I had shared with you in the last con call that a lot of our performance has been affected because of the strike at the Nasik plant. There was a strike from the 30th of September until the 22nd of October and as a result our production was down as well as our operating costs went up. Our new plant at Halol is ramping up well. It has a terminal capacity of 150 tonnes per day and we are currently producing about 85-90 tonnes per

day. Our Q3 average was about 70 tonnes per day. In terms of number of tyres, we produced about 700 truck-bus radial tyres against 500 truck-bus radial tyres on a per day basis from Q2 to Q3. And with respect to passenger car radial tyres, we produced around 3500 passenger car radials against 2600 again from Q2 to Q3. With respect to quality of TBR, performance has been good. We are happy with respect to performance and there was a concern with respect to technology before we went about the Halol project because it was a new technology for us but field tests are showing good results with respect to truck-bus radial tyres. With respect to our operations in Sri Lanka, our Joint Venture there continues to do well and clocked sale of Rs111 crores in Q3, a YoY growth of 14%, PBT stood at Rs11 crores and PBT to Net Sales Margin stood at 10.2%. A little bit on the outlook of Q4, I think Q4 should certainly be a better quarter for us as Halol ramps up first of all. Secondly the impact of Nasik which hit us in Q3 will no longer be there so we shall have better operating efficiencies and higher volumes as well as some increase sales in higher margin products. Exports also continue to do well and growing at pretty strong rate which we expect to continue to go on in Q4. And finally with respect to raw material prices, raw material prices have shown a downward trend in Q3 especially with respect to imported material. So a fair amount of lower cost imports are coming in which should have a better impact in Q4. So all of this I believe will set us up for a strong Q4 performance. And now I will be happy to take any questions from you. Thank you very much.

Surjit Arora: Thank you so much Sir. Moderator can we have the Q&A session please?

Question and Answer Session

Moderator: Yes Sir. Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may kindly press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to kindly use handsets while asking a question. Anyone who has the question may press "*" and "1" at this time.

The first question is from the line of Mr. Arun Agarwal from Kotak Securities. Please go ahead.

Mr. Arun Agarwal Good afternoon Sir. You just now shared your views on the replacement demand being pretty good and the OEM demand growing YoY. Could you just share your thoughts on how it's being panning out sequentially?

Anant Goenka: The replacement demand has been flat; replacement growth has come around a large part is because of inflation, not being very promising. Overall growth has been pushed by better OE and higher exports rather than replacement growth.

Arun Agarwal: So basically, we can deduce that the replacement demand continues to remain slightly on the weaker side.

Anant Goenka: That's right. It was in Q2. Q2 was certainly in terms of demand side and was one of the worst quarter but Q3 certainly has been a better quarter. I would say because of supply constraints, we have not been able to meet demands rather than issues from the demand side.

Arun Agarwal: And Sir, could you also share on what were your average natural rubber prices and the NTFC or the carbon black prices for this quarter?

Anant Goenka: Our overall rubber has been kind of flat. So if you look at overall rubber prices, domestic rubber continued to be at slightly higher levels than international rubber. International rubber infact came down to an equivalent of about Rs170 per kg ex-Cochin equivalent if you were to compare or to do apple to apple comparison. Prices have continued to be about Rs190 per kg on an average and then it started coming down towards the end of the quarter. So that's the situation with respect to rubber. Which was the other question?

Arun Agarwal: What was the average carbon black price for this quarter?

Anant Goenka: Carbon black has also been kind of flat from Q2 to Q3, about a 1% increase in carbon black prices.

Arun Agarwal: Alright. That's it from my side Sir. Thank you.

Moderator: The next question is from the line of Mr. Alok Deora from Sushil Finance. Please go ahead.

Alok Deora: Just a few questions, one was if you could quantify the loss we had because of the Nasik strike?

Anant Goenka: Okay, a little difficult to quantify. What I will do is I will share with you the tonnage so we have 200 tonnes per day of production in Nasik plant. So 200 tonnes per day into about 23 days or so the strike was that comes to little bit over 4000 tonnes. But as a result what happened is that again the ramp up of this kind of a plant takes a fair amount of time. We have infact still not 100% ramped up so the loss even after the plant started ramping up we started with zero and have slowly come up out of 200 tonnes to about 170 tonnes per day. So the loss after that also has been about say 15 tonnes per day kind of a loss over another month or month and a half time period.

Alok Deora: Right now is it at full or…?

Anant Goenka: It is about 165-170 tonnes per day production and it is expected to reach closer to full production by next month.

Alok Deora: And have you taken any kind of price hikes during the quarter?

Anant Goenka: No price hikes

Alok Deora: Are we looking forward or we will just maintain what we…

Anant Goenka: I think raw material prices have started to come down. So price hike looks certainly unlikely. I don't see any visibility of a drop either.

Alok Deora: Okay. And what is the outlook for rubber prices like we just read through one article which said that there is going to be significant oversupply of rubber globally as compared to the deficit we had in 2011. So that could create a sharp fall in rubber prices. If you could comment on that?

Anant Goenka: There were some articles on over supply or good production of rubber in Ivory Coast…

Alok Deora: Yeah, that's the one I am talking about.

Anant Goenka: However on the other side the Thailand Government has decided to intervene and have a floor with respect to the pricing. This was the development which happened over the last 10 days itself and as a result international prices had come up. So while they were at about Rs170-175 per kg they are now at about Rs185-190 per kg I am saying equivalent to ex-Cochin prices. So the prices have gone up infact so let's see, it is very difficult to predict because when the government intervenes one can never predict when and how that would happen. The production has been good, I would say that it would be a good time to wait until Chinese New Year and see whether the Chinese are active in the market or not. So if they are active from the demand side, we can see some price increase but in my view they will be not very active. So we can see some adjustment in international rubber prices downwards.

Alok Deora: And how many tonnes we have sold during the quarter?

Anant Goenka: About 50,000 tonnes per quarter approximately but now with respect to Nasik plant about 46,000 tonnes we would have done.

Alok Deora: Okay. And the strike at Nasik plant like it has been called off so was there any kind of a wage revision which could affect the staff cost or anything like that?

Anant Goenka: No, no wage revision.

Alok Deora: Okay, everything remains the same?

Anant Goenka: That's right.

Alok Deora: Any kind of operating margins guidance you could share for the coming period?

Anant Goenka: Not really, I can tell you that margins should be better in Q4 because of lower raw material prices but I won't be able to share with you the numbers.

Alok Deora: Yeah, that's okay. Alright if I have any more questions I will get back. Thank you and all the best.

Moderator: Ladies and gentlemen if you have a question please press "*" and "1"….

Surjit Arora: Sir just two questions. One what is the CAPEX plans for this year and the next year? And what is the current debt on the books?

Anant Goenka: Current debt is about Rs1100 crores or so and CAPEX plans is about Rs150 crores for the year which is mostly pending CAPEX for the Halol plant and some amount of normal CAPEX that we do in our normal plants, in our Bhandup and Nasik plants.

Surjit Arora: And Sir out of this Rs1100 crores of debt how much would be due to working capital, I mean the short term oriented debt?

Sunil Sapre: About Rs400 crores would be loans for Halol project and about Rs150 crores would be long term and balance would be a mix of short term and working capital.

Surjit Arora: Okay Sir. Thank you so much.

Moderator: The next question is from the line of Mr. Aditya Makharia from JP Morgan. Please go ahead.

Aditya Makharia: Hi. We were just wondering what's the trend in radialisation in the industry today both on the OE side? I mean I know the OE side have taken to radialisation but how has it been even on the replacement side?

Anant Goenka: Hi Aditya. Radialisation is picking up pretty fast this year that's because a lot of our tyre manufacturers have set up a plant over the past year and a half. So all of us need to sell our radial capacities. Radialisation is somewhere around 18-20% at this point of time. So out of a total market size of Rs12 lacs truck-bus tyres about Rs2 lacs truck-bus tyres are radialised at this point of time. So radialisation is picking up quite fast at this point of time and with capacities going up so high for all tyre manufacturers. This should accelerate going forward as well, this can go up to about 30-40% in about 2 years time.

Aditya Makharia: And how will this impact the replacement cycle because obviously these tyres have a longer life?

Anant Goenka: That will certainly, while the market overall is expected to grow some amount of this growth will be dampened because the replacement will be lower so the life of a truck-bus radial is nearly 1.5 times that of normal truck-bus bias of tyres. Also there is some amount of retrading that happens in this segment. So overall with respect to numbers will be reduced because of the radialisation that will happen.

Aditya Makharia: Okay. Thanks.

Moderator: The next question is from the line of Mr. Nikhil Deshpande from Pinc Research. Please go ahead.

Nikhil Deshpande: Good afternoon Sir. Sir, what's your installed capacity at the moment?

Anant Goenka: Installed capacity is about 600 tonnes per day.

Nikhil Deshpande: And Sir could you split between PCR and TBR in truck and bus?

Anant Goenka: If you look at PCR-TBR that's our Halol plant, Halol plant is 150 tonnes per day out of which 70 tonnes per day is PCR and 80 tonnes per day is TBR. So about 12 tonnes per day in Nasik plant of PCR, it is nearly 80-80 tonnes between PCR and TBR.

Nikhil Deshpande: Okay, that's all from my side.

Anant Goenka: It is a terminal capacity and until now we have installed about 130 tonnes in Halol and further will be installed by March.

Nikhil Deshpande: That's the ultimate?

Anant Goenka: That's right.

Nikhil Deshpande: Okay, fine. Thank you Sir.

Moderator: The next question is from the line of Mr. Arun Agarwal from Kotak Securities. Please go ahead.

Arun Agarwal: Sir just to carry on this truck and bus radial side, since you said that the demand in this particular segment is expected to grow at a very fast pace. That means a lot of your truck and bus cross ply capacity will start becoming redundant going forward. So could you just share your thoughts on the same?

Anant Goenka: Yes, you are right that's what happens when radialisation happens; radials will start eating into the truck-bus buyer's capacity.

Arun Agarwal: So how do we plan to utilize that capacity? I mean would you like to convert it in some other segments or I mean how do you go about it?

Anant Goenka: Really there are 2 options, one is you convert to other segments whatever possible, the remaining amount you will have to de-grow by that amount as your capacity goes up. So what you will have to do is take your truck-bus radial capacities up faster and there can also be some amount of export opportunity of truck-bus bias segment.

Arun Agarwal: So Sir going forward there wouldn't be a scenario wherein because you are trying to sell your radial tyres which is relatively a newer product in the Indian market. I mean it is not accepted very widely so some pressure on the margins on that front. And secondly the industry will have excess capacities in the cross ply segments there you could face some margins pressure I mean?

Anant Goenka: Yes you are right in terms of truck-bus bias we believe that there will always be a continuous pressure with respect in the future. So truck-bus bias there is going to be an oversupply in the longer term and the demand is only going to come down over time in this particular segment. I believe there will always be margins pressure in this segment going forward

Arun Agarwal: Alright. Thank you Sir.

Anant Goenka: In last one year and going forward I would expect that to continue, raw material comes down and there are abnormal profit time periods that exist.

Arun Agarwal: Alright Sir. Thanks a lot.

Moderator: The next question is from the line of Mr. Alok Deora from Sushil Finance. Please go ahead.

Alok Deora: Thank you for taking my question again. Just a couple of questions, one was on the two wheeler side how is it performing, I believe that's the highest margins contributor?

Anant Goenka: Yes, atleast amongst the higher margins contributors. It is doing well we have grown at about 30% or so in tonnage terms and nearly about 40% or so in terms of value. So the growth in that area has been good. Performance, there has never been a problem; we have been producing two wheelers over the past 10 years or more. So there is no problem, I mean there are no issues at all with respect to performance.

Alok Deora: Okay. And in terms of this Sri Lankan subsidiary the margins have improved in Q3 as compared to Q2. Any particular reasons for that?

Anant Goenka: Our margins have kind of stayed flat I would say and things have continued to look strong. So we have as I have shared in earlier con calls that we have good pricing power over there, the only manufacturer and having close to 50% market share out there. So we have consistent margins, margins have not undergone the kind of fluctuations that we have seen in India.

Alok Deora: So there we had any kind of price hikes or is it like we had during the previous quarters that has only come through?

Anant Goenka: In Q3 we had no price hikes but we have been having price hikes very much in similar to India. Just when rubber prices were going up in India they were doing so in Sri Lanka. So we kind of matched the price hikes that were needed with respect to our raw material price increases.

Alok Deora: Alright. Just one last question what was our average cost of natural rubber during the quarter?

Anant Goenka: I won't have the exact average cost but approximately it was at about, I would say just to give you a rough estimate the prevailing domestic rubber was about Rs190 per kg or so at that point of time.

Alok Deora: Okay. Alright. Thank you so much.

Moderator: The next question is from the line of Ms. Sejal Jhunjhunwala from Way2Wealth Securities. Please go ahead.

Sejal Jhunjhunwala: Sir, I had a clarification to be made, from what I remember in the last quarter, I had actually put forward the question regarding the conversion of capacity from bias to radials, you had said that it is not possible to convert capacity from these two segments. And right now you have mentioned there are some probabilities of conversion. So can I have the clarification on that, some more insights?

Anant Goenka: You can't convert from bias to radial and within the bias segment if there are similar sized tyres like say for example you can convert from a truck bias maybe to a farm tyre or to other types of categories in the bias segment itself. So you can do some replacement what I might have meant is that you can increase your capacity of radials so we can take it up for example in our Halol plant and bring it down in our Bhandup plant. But within the Bhandup plant what conversion we can do is from truck maybe to farm tyres or maybe to other categories of tyres which are bias tyres itself. And the bias capacity cannot be converted to a radial capacity.

Sejal Jhunjhunwala: Okay. And secondly, in terms of bias capacity for the export markets, I just like to understand what has been the demand trend for the exports markets in terms of bias tyres. I mean is that growing very fast?

Anant Goenka: Until about a year and a half ago, we always gave priority to the replacement segment so there have been constraints from our side with respect to supply to exports. It is only in the last one year when we have found that in the truck bias segment there has been limited growth domestically, has been supplying more and more truck bias tyres to the export segment and therefore the growth in exports. So there is good potential in markets like Middle East or in Africa, underdeveloped countries like South East Asia etc. But the Western world is fully radialised so there has been very limited demand in those countries.

Sejal Jhunjhunwala: Okay Sir. And just a last question, are we hedged for our exports, any hedges have we taken or we open?

Anant Goenka: In terms of FOREX we are fully hedged, FOREX gains or losses that we have generally during the quarter.

Sejal Jhunjhunwala: So in our exports, I mean on the export front we are not hedged, right? From what I know is that we have kept that open? Can I basically know the realized rates for exports for the quarter?

Sunil Sapre: Exports, we cover them as soon as we invoice them. If you want to know what is the average rate of realization it would be actually rupee rate more or less.

Sejal Jhunjhunwala: Okay fine. That answers my question. Thank you. That's all from my side.

Moderator: The next question is from the line of Mr. Deepak Gupta from Kotak Mutual Fund. Please go ahead Sir.

Deepak Gupta: Sir wanted to know how you see the demand scenario panning out for the tyre industry in FY `13.

Anant Goenka: Demand scenario I would say continues to be kind of muted at this point of time. You will have to look at it segment wise, the car segment I would say growing at about between 0-5% tonnage kind of growth. With respect to the truck-bus bias segment there is flat or there is going to be de-growth in that segment. Radials on the other hand will grow pretty fast so that area we can see over maybe 20% growth in tonnage terms going forward. And with respect to farm segment, it continues to be strong so that area with good monsoon, things has been looking pretty good. And motorcycle also continues to be pretty strong at about 5% or so growth.

Deepak Gupta: Okay. But in passengers from 0-5% it would be total market, OE plus replacement?

Anant Goenka: Yeah, this is the overall growth I would say.

Deepak Gupta: Okay. Thanks.

Moderator: As there are no further questions I would now like to hand the floor over to Mr. Sunil Sapre for closing comments please.

Sunil Sapre: We would like to thank all the investors and analysts for the interest shown in our conference call. And if you have any further queries we would be very happy to answer them. Thank you.

Surjit Arora: On behalf of PL, I would like to thank the management of CEAT for taking out their time and sharing with us their thoughts on the industry as well as on the numbers. Thank you so much Sir and have a nice day.

Anant Goenka: Thank you.

Sunil Sapre: Thank you.

Moderator: Thank you very much. On behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.