# "CEAT Q3 FY-14 Earnings Conference Call"

**February 11, 2014**

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**MODERATOR:** **MR. ANIKET MHATRE – ANALYST, STANDARD CHARTERED SECURITIES**

**Moderator:** Ladies and gentlemen good day and welcome to the CEAT Q3FY14 Earnings Conference Call hosted by Standard Chartered Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniket Mhatre from Standard Chartered Securities. Thank you and over to you sir.

Aniket Mhatre: Thank you Margaret and good afternoon everyone. Welcome to the Post-Results Conference Call of CEAT. To discuss the call, we have with us from the management team Mr. Anant Goenka – the Managing Director of CEAT and Mr. Subba Rao – the Chief Financial Officer. I would now request Mr. Anant Goenka to begin with his initial comments on the results and then we can take over the question-answer session. Over to you sir. Thank you.

**Anant Goenka**: Thank you. Good afternoon and a very warm welcome to CEAT Quarterly Investor Call. I am Anant Goenka – Managing Director of CEAT and I have with me Mr. Subba Rao, our CFO. Thank you very much for your interest in CEAT and I will give you a brief update on our results, key parameters relating to our results and then we can have a set of questions.

On a year-on-year basis, we have registered a 15% revenue growth driven by a solid volume growth of about 16% and price - mix contributed to about -1%, so largely everything has come out of volume growth. This is largely because of strong growth in the Passenger segment such as two-wheelers, utility vehicles and passenger car radials. Even in terms of our market segment, we have seen growth in all three segments of Replacement, OE and Exports which have all grown at double digit plus rate.

On a quarter-on-quarter basis, our revenues grown by about 9% again largely because of volume growth. In terms of segment wise, Exports have grown at about 25% plus while Replacement and OE has grown by about 5%. Our raw material prices have broadly been flat, although rubber prices have softened in this quarter, other RM prices have gone up.

In terms of product categories; the Passenger segment two-wheelers, UV continue to grow at a fast rate. We launched a successful motorcycle advertising campaign where we tied up with Dhoom 3 which has gone up quite well. I am also delighted to share with you we won the EFFIE award which is one of the best marketing awards for the best ongoing TV advertising campaign.

On the commercial vehicle side, growth was quite muted mainly due to an overall weak macroeconomic environment. Going forward, we will continue to focus our shift on our key categories of focus that is the Passenger segment which is going to be on the two-wheeler side, motorcycle, UV, passenger car and we will continue to also focus on growth in Exports. To achieve this, we are opening up new offices in key export markets to get closer to the customer. We are doing focused branding on key areas of focus and we are looking at penetrating in rural markets with new and different channel designs. As we shared earlier that these are highly profitable segments and have good demand growth going forward.

On the RM front, international rubber prices have softened and domestic prices have also come down and going forward I say that we expect stable RM Prices for the next couple of quarters at least. I will now hand over the call to our CFO, Mr. Subba Rao who will talk you about a few key financial parameters.

**Subba Rao Amarthaluru:** Ladies and gentlemen good afternoon, Subba Rao here. Just to briefly explain the financial results:

Our EBITDA percentage for the quarter declined by about 190 basis points quarter-on-quarter basis, but expanded 270 basis points year-on-year as compared to last year. Absolute EBITDA for the quarter stood at 154 crores compared to 165 crores for the previous quarter while higher volumes contributed positively, dividend income from Sri Lanka, effect of increments in the staff cost, and higher ad spends and some one-time provisions contributed to the lower EBITDA by about 15 crores quarter-on-quarter basis. At consolidated level, our PBT stood at 98 crores compared to 33 crores last year and 114 crores the previous quarter. Our debt has reduced by more than 100 crores which was largely due to reduction in the short-term loan and which again reduced because of the lower inventory levels for the quarter. Our debt-to-equity ratio stands at 1.1 and we target to reach close to one time by the end of the current financial year.

I am happy to share that CEAT credit rating has improved by three notches from BBB to A. This will enable us to bring down the overall cost of funding if not the absolute interest cost going forward and progressively. On Sri Lanka JV, our Sri Lanka JV revenue had slightly de-grown by about 7% quarter-on-quarter while reporting a healthy growth of 11% year-on-year at 112 crores. EBITDA margins stand at healthy 20% and PBT at 19 crores. With this, we now invite queries from you. We will be happy to answer.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

**Basudeb Banerjee**: As you said that you have repaid debt to the quantum of around 110 crores, but if I see the interest outgo on a quarterly basis both at consol and standalone level, I cannot see any major reduction per se. So can you highlight on that aspect?

**Subba Rao Amarthaluru:** Maybe the debt got reduced progressively and next quarter we will see the impact, but at the same quarter if we got repaid towards the end of the quarter, it becomes very difficult to reduce the interest cost.

**Basudeb Banerjee**: So the whole of this repayment has happened this quarter only?

**Subba Rao Amarthaluru:** Yes, there was higher inventory which we explained in the last quarter. It was strategic inventory and we reduce the inventory mostly towards the end of the quarter.

**Basudeb Banerjee**: And second thing is sir as you said that the reason behind the margin drop QoQ, one is higher ad spend and despite rubber falling, so in the presentation you have mentioned that increase in other raw material prices barring rubber, so can you throw light on that?

**Subba Rao Amarthaluru:** The drop is about 19 crores. Primarily there are three reasons excluding the offsetting reasons. The one reason is last quarter there was about 10 crores dividend and technology fee from the Sri Lanka joint venture which is not there in the current.

**Basudeb Banerjee**: Sir only at the raw material level?

**Anant Goenka**: On the raw material prices, this is Anant here, basically we have seen a substantial increase in fabric which is carbon black and chemicals. So these are some of the key raw materials where prices have gone up whereas rubber there has been a slight drop.

**Basudeb Banerjee**: Can you highlight the quantum of increases in that CB and TCF QoQ?

**Anant Goenka:** Between 5% and 10% roughly.

**Basudeb Banerjee**: QoQ?

**Anant Goenka**: Yes.

**Basudeb Banerjee**: Sir what are the latest CAPEX plans next year including all Bangladesh investments and Halol plant expansion as of now for next year?

**Anant Goenka**: Yes, so we do a routine CAPEX of about 80-90 crores is going to be the routine CAPEX and then we have our Bangladesh investment wherein our equity investment has already gone in and the balance will be our investment in Halol plant. I think out of which about 253 crores would be going in this coming year.

**Subba Rao Amarthaluru:** Yes, about 350 crores would be spent towards the next financial year.

**Basudeb Banerjee**: So including everything on a consol basis, one can expect 350 crores CAPEX in FY15?

**Subba Rao Amarthaluru:** No, routine CAPEX is 80 crores. Halol CAPEX is about 350 crores.

**Basudeb Banerjee**: So 450.

**Subba Rao Amarthaluru:** 450 and Bangladesh CAPEX would be in the region of about $20 million which is about 120 crores.

**Moderator:** Thank you. The next question is from the line of Jay Kale from IDFC Securities. Please go ahead.

**Jay Kale**: Sir my first question was regarding the pricing action in the market. Have you all seen any price cuts taken in the market into the raw material softening and my second question would be on your two-wheeler capacity if I am not wrong, it is going from 7 million to 12 million tyres. If that is the correct number, then are you seeing incremental market share gains with this capacity expansion or you expect the market to grow by that much?

**Anant Goenka**: Jay on the pricing front, generally prices have been stable. So there has been hardly any price adjustment, there could be minor changes on certain SKUs, but broadly it has been flat for the last 8-9 months' time. With respect to our two-wheeler capacity, we have taken up a capacity which we outsource from about 7 lakhs tyres per month as of Q2 end. It will go up to about 10 lakhs in about another 3-4 months' time. So by June-July, we can expect us to reach about 10 lakhs capacity.

**Jay Kale**: The market is so buoyant, the two-wheeler replacement market or is it more of market share gain that you are looking at?

**Anant Goenka**: Largely market share gains. Market is also growing, but it is growing at about 5%-7% kind of growth, but I would say largely market share gain is what we are getting.

**Jay Kale**: Sir and there was a recent article wherein the Kerala government was looking at banning, there was a proposal of banning imported rubber. So what is the status on that and how much of your raw material is currently imported and how are you strategically placed on that?

**Anant Goenka**: So there were various proposals given by the Kerala lobbies and out of which, one of them got implemented in the month of December which was an import of rubber duty which was at Rs. 20 or 20% whichever is lower has gone up to Rs. 30 or 20% whichever is lower. So out of the various proposals this is what has now got implemented. We do not have any further information on what more can happen. So very difficult to say what will happen going forward. Can you just repeat your second question?

**Jay Kale**: What is your imported rubber content percentage currently?

**Anant Goenka**: So it varies really substantially month-on-month or quarter-on-quarter depending on what the raw material price or domestic parity to international is. On average, we would be doing at least about 20%-25%, but in a situation if by any chance domestic is lower than duty free international, then we would be doing 100% domestic buying, but in today's situation you have domestic pricing is slightly higher. So imports are slightly higher than the usual 20%-25% that we do.

**Pramod:** Anant, this is Pramod here. Wanted to understand how would you view your balance sheet in terms of the debt on the books given the CAPEX program what you have envisaged for next year and definitely over the next 2-3 years where do you ideally see the debt figure for yourself?

**Subba Rao Amarthaluru:** Our overall debt-to-equity as of now is about 1.1 as we explained. Next 2-3 years, the CAPEX that is "50 million in Bangladesh and 650 crores in Halol, which is about close to 800 crores. This 800 crores would be spent over a period of next 24 months or so. We do not see any significant increase in the debt levels as compared to the current situation and the increase at least in terms of ratio, our profitability will keep going up, our EBITDA will keep going up if the markets continue to remain buoyant as of now and in terms of the ratio, we would be able to maintain our 1:1 levels, though the absolute quantum of debt might slightly increase because of the CAPEX in the near term.

**Pramod**: And funding would be largely internal accruals as what is the aim?

**Anant Goenka**: The equity part would be internal accruals, but debt yes, to the extent of about 70% of the project cost we need to borrow.

**Pramod**: And you are looking at tapping the overseas market for that because you have a decent export exposure. So we would be trying to take advantage of that or I think it is largely domestic high cost debt.

**Subba Rao Amarthaluru:** To borrow from the overseas markets, you need the rating. When you go for the overseas markets, but you must go only for the bond products, otherwise there is no point in going and you need to hedge it. Our entire exports are covered by imports. Our imports are slightly higher than the exports as of now. So as we do not have this kind of natural hedging. Even if you go for any forex borrowing, so then we will be covering and fully hedge it. So when the rating goes up and also when the dollar becomes easier in terms of the pricing, then only we will look at those markets, but as of now we do not have any plans going for dollar borrowing. Just like correction on the debt-to-equity, may be in any case we would not exceed 1.5 times in the near future.

**Pramod:** And that thing after this capacity plays out, naturally one would expect that once this plant becomes operational, the debt-to-equity should improve in a considerable way beyond 2 years?

**Subba Rao Amarthaluru:** Yes. You must measure in terms of the debt-to-equity, EBITDA to interest. So on all parameters; I think there would not be any significant change in terms of the ratios.

**Pramod**: And Anant this is for you. Just wanted to understand how is the competitive scenario in different segments in automobile in India right now because two-wheelers you said you have been gaining market shares. Just trying to understand if you are able to grow so aggressively in two-wheelers, there is some market share loss for some incumbents. So how is the pricing playing out there and what is your view on the passenger car replacement market in terms of branding and competition coming in from Michelin and all. How do you see the profitability for the passenger car side of the business?

**Anant Goenka**: The two-wheeler side, actually there are limited number of players. So the key four players would be MRF, TVS, Falcon Tyres, and CEAT. So these are the four players that are there. Amongst 4 of us, competition is of course there, but we would think about the two-wheeler market is that the consumer is far more brand conscious. If you look at the pricing differential between the price leader versus may be the third or fourth player, there can be a much larger pricing differential in the two-wheeler rather than a commercial vehicle segment. The two-wheeler, the price difference can be as high as nearly 15%-20% whereas in commercial vehicle segment, the difference between the highest price and one of the lower price players could be as low as about 4%-5%. So that is where really we are looking at playing where we are able to command a price premium. CEAT today is the highest priced motorcycle player. So despite being the highest priced or moving to a high price position, we are able to grab market share as well and that is partly because of various basic marketing things or marketing tactics that we followed which is the common sense things like making sure that our channel has grown appropriately, we are covering all the districts in India, our advertising campaign has worked well, we have introduced a whole lot of new products in the segment. So all of that has kind of come together and worked well for us.

**Pramod**: And on the passenger vehicle industry profitability given the capacity creation and the new brand of Michelin stepping up their activity in India?

**Anant Goenka:** Most of the MNCs or at least Michelin is still I believe working in on imports.

**Pramod**: I am talking more on the longer term as they have the capacity, the plan comes to speed and they start localizing. How do you generally see the pricing environment and especially in the margin and raw material because given that what will be the implication on branding expenses for the incumbents.

**Anant Goenka**: So certainly competition will heat up with at least we hear Bridgestone and Michelin setting up large capacities in these areas. So I see that competition will certainly go up. On the pricing front, generally I do not believe that they will play a low price kind of a game. They are premium players. They would be certainly looking at having the highest priced products. So I do not see price war kind of thing emerging, but very difficult to say what will happen at that point of time.

**Pramod**: And finally your segment wise exposure of revenue, two different segments?

**Anant Goenka:** Largely we have been much larger exposure to the commercial vehicle segment. About 50% of our business comes in from commercial vehicles, about 15% would be coming in from motorcycle, about 7%-8% from passenger car radials and UV radials and then tractors, off Highway tyres would be about 7%-8% each.

**Pramod**: And exports would be still around 12%-15%?

**Anant Goenka**: No, export is about 20%-25%.

**Pramod**: In terms of revenue sorry.

**Anant Goenka**: Yes.

**Moderator**: Thank you. The next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.

**Amin Pirani:** Sir I had two questions. First of all your overall revenue growth has been outperforming the industry in recent times and I understand that part of it is because you are gaining some share, but how would you quantify the organic growth on the ground in the CV as well as in the passenger car segment for the industry as a whole?

**Anant Goenka**: The overall situation looks pretty dull especially the OE side, things are looking very challenging because low numbers -15, -20 kind of growth. Replacement side, people need to change tyres. So I do not see that changing. You can delay to a certain extent. So to that extent, it is closer to an FMCG product where demand generally does not go down too much. So there we are seeing demand at a flattish kind of a situation. What is happening is in the commercial vehicle, your radialization is one area where which is a big change happening. So the truck bias segment is certainly seeing some amount of degrowth whereas you have seen higher growth, but on a net-to-net basis, it is anywhere between 0% to 3%-5% growth in the commercial vehicle replacement segment.

**Amin Pirani:** And sir how things on the passenger and UV side?

**Anant Goenka:** Passenger UV side, also on the OEM side, things continue to look slow. So for the past 8 months-9 months, we are seeing again negative growth of about -5% to -7% kind of growth levels, but again on the replacement side, we are seeing good growth. In past CEAT base is also low. So we started of with very low capacity. It is still only about 7%-8% of our sales as a percentage. So we have good headroom and we therefore taking advantage of that opportunity that is there and therefore we are seeing growth rates of 25% plus in some of these segments.

**Amin Pirani:** But would the market be growing at high single digits or lower than that?

**Anant Goenka:** I would say market is growing at somewhere, I would roughly say about 5%-7% kind of growth levels.

**Amin Pirani:** And just since we have had 2 years of very severe downturn on the CV side, do you think that could impact replacement sale going into next year wherein we could have a scenario of zero or even negative growth on the replacement side for CV or you do not think that is possibility.

**Anant Goenka:** That could be there. So for my domestic replacement side, things could get challenging. So generally they say that yes, there is about 2-3 year lag after the OEM market, that could be, but the replacement market in general is much larger. So yes, there will be a slowdown. There will be some impact, but if you look at the history of all the sales that have happened in the last 10 years, the population of vehicles is much higher, but yes certainly that will have some impact. What we have is we have the export area as one opportunity to shift some of that additional supply that will come in to those markets. So we hope we are able to hedge through exports in some way.

**Amin Pirani:** What are your key geographies for exports?

**Anant Goenka**: It would be Middle East, Indonesia, Brazil, Africa. These are the key.

**Amin Pirani:** And these are mainly passenger car tyres or two-wheelers also?

**Anant Goenka:** We do not export passenger car tyres because our capacity in general has been limited. So it is mainly truck bias, truck radial, light commercial vehicle tyres.

**Amin Pirani:** Just on your margins for this quarter mainly, you did mention that rubber prices came down, other components went up, but was there a change in mix in this quarter because your RM costs went up quite significantly if I look at compared to last quarter. So was there a mix change or was it just because of some input going, prices going up higher.

**Anant Goenka:** No, net-to-net actually I would say that yes there has been a small mix change, but broadly I would say our net realization as well as net material cost has broadly been the same. There is not much change that has happened because there has been not much change. Largely we have gained because of volume growth, but RM prices had gone up just a little bit, not a large jump I would say because rubber has come down a little bit, other raw material has gone down. So net-to-net, actually raw material is broadly flattish.

**Amin Pirani:** And is synthetic rubber a significant component input for you or is it not yet?

**Anant Goenka:** It is about 15% of our total raw material buying.

**Moderator:** Thank you. The next question is from the line of Disha Sheth from Anvil. Please go ahead.

**Disha Sheth:** Sir can I know your average rubber price for Q3?

**Anant Goenka:** Average rubber price that was prevailing in India at that point of time or would be approximately about Rs. 160 per kg. I would not be able to share with you the price at which we bought at, but roughly the prevailing price at that time would have been about Rs. 155-Rs. 160 per kg.

**Disha Sheth:** And sir the import would be lower or higher?

**Anant Goenka:** Again there are too many variables actually to elaborate because some amount would be imported duty free, some amount would be imported duty paid and so really it is very difficult to come out with a specific number on that. International rubber would be perhaps prevailing at about Rs. 150 per kg and duty paid would be coming in at about another Rs. 20 more, totally Rs. 22 more. That is about 170-172. So roughly this is how the prices have been.

**Disha Sheth:** And sir how many months inventory are we piling?

**Anant Goenka:** Again, domestic buying is very short buying. So you do not have too much inventory that we keep about 10-15 days inventory. Imported inventory can be about a month, month and a half at least.

**Disha Sheth:** And sir what capacity utilization are we operating at?

**Anant Goenka:** About 88% to 90%.

**Disha Sheth:** And sir exports growth is how much is from volumes and currency?

**Anant Goenka**: All of it is volume growth.

**Disha Sheth:** It is all volume growth and sir our market share in two-wheeler, have we increased the market share in this quarter? How much was it today and how much was it before like year?

**Anant Goenka:** In about a year's time, we would have gained at least 3%-4% points in market share. Quarter-on-quarter, data is actually not available. So very difficult to say what QoQ is, but roughly about at least 3%-4% market share.

**Disha Sheth:** So we stand at around?

**Anant Goenka:** We would be at about 21% in the replacement market.

**Disha Sheth:** And sir two-wheeler is purely replacement?

**Anant Goenka:** No, we have OE sales as well.

**Disha Sheth:** So can we get the breakup?

**Anant Goenka**: OE market share is very difficult again to calculate, but roughly if you were to look at production data, it would be about 3% points lower. So we sell about a lot more to the replacement market or our market share is higher there. It would be say roughly about 21% in the replacement market and about 16% in the OEM segment.

**Disha Sheth:** No, I am asking the sales mix, how much would be replacement and OEM would be 60-40.

**Anant Goenka**: In motorcycles?

**Disha Sheth:** Yes.

**Anant Goenka:** About 65-35 roughly.

**Disha Sheth:** And this has been same throughout the..

**Anant Goenka**: Roughly it has been the same. I might be off also giving you the number by about few percentage points but this is a broad number that I am just sharing with you.

**Disha Sheth:** And sir how do you see demand going forward like for Q4 and the year going ahead in all the segments?

**Anant Goenka**: Overall demand situation seems to be quite challenging. We have grown by 15% which is good, but overall I would say the demand situation is challenging. Industry would be growing by about 5%-6%. So we hope we are able to continue higher level of growth, but going forward there is no change. There is no investment happening, no new capacity, no new industry investment happening, nothing major happening in the economy. So I do not see any change happening in movement of goods or anything.

**Moderator**: Thank you. The next question is from the line of Ajay Sethia from Centrum. Please go ahead.

**Ajay Sethia**: I have got two questions. First what is the current distribution strength and within that how much would be the exclusive CEAT dealers and when you sort of talk about the distribution channel, how important is the exclusivity in that sense?

**Anant Goenka:** We would be having about 3,500 dealers all over India. Exclusivity, it really depends on whether which category you look at, each of them vary a lot, but we would be having about 130-140 odd CEAT shops which are exclusive non-truck dealers of ours. We would be having at least 200-300 exclusive truck dealers and a whole lot of motorcycle distributors. So the motorcycle channel is generally sold through a distributor like an FMCG kind of a model. So we have about (+250) distributors all over the country.

**Ajay Sethia**: And how do you plan to expand this and would the expansion be more towards setting of exclusive dealers or it might be in equal proportion?

**Anant Goenka**: It would be through both. Especially in non-truck segments, people want choice. So they will go into dealer where they will say I want to see all the various brands that are there and then they will choose out of that. So being present in multi-brand counters is very important as well as you need to be present in exclusive. I would say both are very important. You have to focus on both to grow.

**Ajay Sethia**: And sir somewhere in your interaction, you indicated that you have been now focusing to expand your reach on the rural side. So if you can just help us understand how is the rural market or where do we see the opportunity over there?

**Anant Goenka:** So couple of areas. One is that we find that with multinationals coming in, they will certainly be playing more of an urban kind of a play, premium kind of an image. So we want to certainly take advantage of our current strength of distribution and further strengthen that by going into Tier-C, next level kind of towns where we can establish our presence there. Also rural economy is growing well. Monsoons have been good. Agriculture has done well. So though that areas where we see demand picking up as well and as people grow, we will find especially in areas like two-wheelers, passenger car etc., people scaling up to buying the next level of vehicles. For example in India, you have about 25% of the market or 20% of the market is in the passenger segment whereas in western countries, you have about may be 70% of the market is passenger because nearly each and every person owns the car or multiple cars. So India will overtime move towards that. So I feel the growth of passenger car, and passenger segments which are higher than the commercial segments.

**Ajay Sethia**: And sir my second question was directionally we have seen the EBITDA margins moving up for CEAT over last 5-6 quarters. How much would you attribute that to a) may be on account of the softening rubber prices and second directionally we have seen change in your product mix. So just trying to understand that for example if there is an increase of 400-500 basis points, out of which, how much would be structural in each and how much would have been supported through the softening of rubber prices?

**Anant Goenka**: Very difficult to break it up because what happened is we have been to actually keep our prices generally constant, take up prices a little bit in certain segments, but broadly prices have been constant. Product mix has improved and raw material prices have come down. On a year-on-year basis, 7%-8% or anywhere between 5% and 10% reduction in raw material prices with net realization broadly remaining at similar levels. So we did take a price cut in March of about 1.5%, but broadly I would say our net realization also has not changed. So we have gained some amount because of that. I am not being able to clearly differentiate the two to your satisfaction.

**Ajay Sethia**: Just trying to sort of understand in terms of the sustainability of the margins. If the rubber prices have to reverse from the current levels, what are the cushions which are available with you to sort of mitigate the adverse impact on account of raw materials?

**Anant Goenka**: I think here as we move more and more from the commercial to the passenger segment, it becomes more and more easy to keep pricing with us in a way. So there we have shifted from nearly closer to 55 to 60% come down to nearly 45-50 in the truck and bus segment. So as we continue this growth in the non-truck segment, I think our position will get stronger. Second is that raw material prices for the next I would say at least 3-4 months look to be benign. I know it is very short term, but at least for the next quarter, quarter and a half, things look to be quite okay.

**Ajay Sethia**: To what extent, would you be worried let us say if the rubber prices have to move up from the current levels by 10%-15%. Would you still feel that you got enough levers to at least sustain the current margins. Just trying to understand that to what extent would the rubber prices be comfortable in terms of sustaining the margins?

**Anant Goenka**: I think what we have seen in this year, we have seen actually higher margins than what we have generally seen in the past for a company. So whether this is sustainable or not. I would say yes, the current environment is showing that it is sustainable for a short term at least, but I say overall worldwide demand is not picking up much. China is not looking great. So I expect raw material prices to relatively remain lower for the next 4-5 months, 6 months at least I would say. So as a result, I can predict more on the shorter term. Long term, whether this margins will sustain looks challenging. I would not say that okay, last quarter our margins were close to 13. This quarter, it is close to about 11. I would perhaps discounted a little bit saying that yes, to be a little bit more conservative may be 9%-10% is for the long term.

**Ajay Sethia**: And last question is on the Halol, can you just help us understand what has been the utilization level this quarter compared to the last quarter?

**Anant Goenka**: Halol utilization would be at about 82% kind of utilization at this point of time. There are two parts to it where we are doing truck radials as well as passenger car radials and UV radials. On the passenger segment, we are having some supply capability gaps which we are looking at bridging in the next 3 months. So that will perhaps add about approximately about 7%-8% further in utilization. The balance is some slowdown in demand in the commercial vehicle segment that we are seeing. So that is the main two reasons for not fully utilizing it.

**Moderator**: Thank you. The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.

**Paras Nagda:** I wanted to know on a quarter-on-quarter basis, the kind of growth in export from 20% of sales to 24% where exactly if you could break this up between how has it come with respect to have you tap new geographies or have you increased sales in the existing geographies?

**Anant Goenka**: Yes, we have seen growth in as I said some of the key areas that we have been focusing on which is countries like Brazil, Indonesia, etc. These are countries at least specifically Brazil, there were historically some issues with respect to liquidity and credit issue out there where we had to reduce supply, but things started getting better from October onwards. So that certainly helped in terms of growth and I would say Indonesia is another area where we are finding it exciting and I say Middle East as well. So broadly these are the three regions where we are finding good growth opportunity.

**Paras Nagda:** And sir can I know the 9-month export number and for the quarter also if you can share with us?

**Anant Goenka**: Nine-month export number, I would not have it of the top of my head. Roughly I can perhaps get back to you on that.

**Paras Nagda:** And sir in the opening remarks, you mentioned that there has been some increase in provisions. Is it some kind of a one-off which we have classified in any of our expenditure heads?

**Subba Rao Amarthaluru:** There is no increase in the provision. There was a reversal of the provision in the earlier quarter and also there is an increase in the provision on account of some employee costs. So that must have been mention about the increase.

**Paras Nagda:** And sir in your notes to accounts, you mentioned about the VRS scheme which is opened. So what kind of cash outflow do you expect to incur in this VRS scheme?

**Anant Goenka:** Approximately Rs. 15 crores.

**Paras Nagda:** And sir lastly any dividend payout policy that you have structured or how are the things going on there?

**Anant Goenka**: No, we do not have any formal policy as such. I would say perhaps if you just look at past trends and kind of project forward and perhaps the estimate that could be a fair dividend kind of policy, but I think that is the board decision. So very difficult for me to say what would happen.

**Moderator**: Thank you. The next question is from the line of Nipun Bhatt from Wealth First Portfolio Managers. Please go ahead.

**Nipun Bhatt**: Sir actually I would like to ask about the import duty, government has taken over on rubber prices. What would be the impact for the next quarter?

**Anant Goenka**: So import duty went up in the month of December as I said by about Rs. 10 per kg. So it immediately had an impact where rubber prices went up by Rs. 10 per kg, but overtime what has happened is that international rubber prices have come down quite a bit over the last one month and therefore the price increase of Rs. 10 that had happened has actually come down by about Rs. 20 from that peak level. So I do not see any specific impact happening. Yes in the long-term, we can expect domestic prices to be approximately Rs. 20-Rs. 30 highest against international duty free prices. So that delta is expected to increase. How it will have an impact on overall rubber prices is really a matter of supply and demand. So what the main difference is that yes, the delta between duty free imported rubber and domestic rubber will increase by about Rs. 7-Rs. 10.

**Moderator:** Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

**Riken Gopani**: Sir just two points. One is post the kind of correction that we have seen rubber prices, have we in any of the segments in the replacement markets seen revived action from the Chinese players?

**Anant Goenka**: Not really. I say that rupee itself has been quite natural barrier with staying at about Rs. 62 or Rs. 61 levels. We have not seen any substantial change in Chinese companies trying to come in.

**Riken Gopani**: And second thing is in a TV interview today, there was some mentioned that overall margins on a steady state basis should be around 10%-11%, just wanted to understand that given whatever is happening further to rubber prices beyond the current quarter's consumption, the outlook should be even a further improved margin or do we envisage price corrections in the coming quarters which is why we have seen overall margins sustaining at 10%-11%?

**Anant Goenka**: Very difficult to say. One is that we can say that for the next quarter, we expect raw material prices would be stable or may be even slightly lower. Now how competition will react, how pricing will change, very difficult to say. So tomorrow there is a price cut by competition and we have to react or something along those lines happen, we do not know. I cannot predict on that.

Assuming pricing stays where it is today, we can expect slight improvement even in margins for quarter one, but it is really a factor of how raw material behaves. So if I would say in the longer term, I would prefer to keep it safe and say that yes, 10%-11% is a fair margin at least for the next 3-4 quarters or 3 quarters at least.

**Riken Gopani**: And in terms of the segment wise, is it fair that the margins in terms of cars and two-wheelers would be similar or it would be even better in two-wheelers?

**Anant Goenka**: It would be broadly at not very different levels. I would not be able to share with you exact details because it varies again market to market. So in an export market, it will be different; in OE, it would be different; in replacement, each of them would be different. So it varies quite a bit again market-to-market category-to-category.

**Riken Gopani**: And lastly in terms of any discount in the market or in terms of pricing action. After whatever you would have done last year March, there has been no action that has been taken up especially amongst various segments in the replacement market.

**Anant Goenka**: No, not really, no action.

**Moderator:** Thank you. The next question is from the line of Jay Kale from IDFC Securities. Please go ahead.

**Jay Kale**: Sir just one. In terms of supply I wanted to ask if I am not wrong, in 2006-07 there were lot of plantations of rubber planted and which came up with the gestation period being 6-7 years came up in 2012-2013 which is coincided with the demand softening. So going forward are you seeing such robust plantations coming up in the next 2-3 years or how is the rubber plantations?

**Anant Goenka**: You are right. I think some amount of supply can go up a little bit, but looking at current situation, I think no farmer wants to look at growing more rubber at this point. So especially in the last 3 weeks, there has been quite a drop in rubber prices and we are also concerned that yes, we would not like it rubber prices to go down much more. So I think it is an area of concern. We need to make sure that there is some stability in rubber prices rather than the fall that we have seen, but I would say yes that supply has been relatively okay. In the end, there are also other factors like weather etc. that matter. For example, last year in July, there was extremely heavy rainfall in Kerala. As a result, there has been some amount of disease going around in the plants during the peak tapping time. So net-to-net, I would say may be a marginal increase in supply, but nothing much to talk about I would say.

**Jay Kale**: Sir also one more thing. There was this news about the dealers had kind of appealed to reduction in prices from tyre companies, a kind of an allegation of cartelization. This keeps coming up pretty frequently. What is your take on it? Is industry reacting to it or how is it going?

**Anant Goenka**: So I think we will revert to them in court or whatever legal system that we have to answer them in whatever way it is needed. I think this is pretty natural in an oligopolistic kind of a market that people or dealers could be concerned about that. I think we will just have to answer them in the formal courts of law and convince them that there has been no cartelization.

**Jay Kale**: And your pricing strategy with your OEMs, how is it. Does it take place on a quarterly basis like with the reduction of prices, are you seeing your prices going down in the OEM segment. In terms of profitability with OEMs, is it improving because of reducing natural rubber prices or the reduction in prices is passed on.

**Anant Goenka**: So it again varies OEM-to-OEM. Some we have a pricing formula where prices could go down, but broadly on a larger basis, it is more on an ad-hoc basis. So when rubber prices go down or they go up, we would go to them for a price increase or they would come to us for a price drop. So generally that is how it happens. There is no fixed formula or no fixed time that every quarter it goes in for negotiation.

**Jay Kale**: Sir your OEM trucks segment still continue to remain under pressure, breakeven or kind of losses also?

**Anant Goenka**: Certainly margins there are the lowest amongst the three segments.

**Moderator**: Thank you. The next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

**Basudeb Banerjee**: Sir I just missed out you said the revenue breakup segment wise that is CV, motorcycle, tractor. Can you repeat that sir?

**Anant Goenka**: Roughly commercial vehicle, truck and bus would be about 48%, motorcycle about 15%-16%, PCR/UVR about 7%-8%, and tractor specialty about 7%-8% each.

**Basudeb Banerjee**: And the remaining?

**Anant Goenka**: Remaining would be light commercial vehicle is about again 8%-9%.

**Basudeb Banerjee**: And exports-to-sales this quarter was broadly around 24%-25%.

**Anant Goenka**: About 22%-23%.

**Subba Rao Amarthaluru**: A small clarification, I would like to clarify on the debt part. Would like to separate the long-term debt from the short-term debt which we borrow for the working capital because of the measure usually the investor looks for is long-term debt because the short-term debt is completely covered by the inventories and other current assets and it is non-amortizable debt. So which needs to be serviced as a long-term debt in terms of repayment. So that we do not expect that to cross with all the CAPEX for the next couple of years including. I do not think it would cross beyond 0.75 times of our net worth that is where the tricks of the trade.

**Moderator**: Thank you. The next question is from the line of Aniket Mhatre from Standard Chartered. Please go ahead.

**Aniket Mhatre**: Just couple of questions. One can you give us the timeline to your Bangladesh project. How is it going on? Is it on time?

**Anant Goenka**: Bangladesh project has got delayed by about 3 months' time. That is because of certain clearances of land, etc., that was there, but rest of it is now we have now got the clearance and work has begun. So we hope not to see too many more delays. Political situation also seems to have calm down. We have had a very tough November and December because of the various hartals, etc., that were there, but things post elections seem to have got better.

**Aniket Mhatre**: So when can we expect the production about from now?

**Anant Goenka**: I would say about quarter one of FY16.

**Aniket Mhatre**: Recently when the rubber prices were going down, we heard comments that the Kerala rubber lobby is trying to hoard rubber stock. So any comments on that? How severe that impact can be or what can it have an impact on our domestic procurement?

**Anant Goenka**: No, very difficult to say what will happen. In fact we are working with the rubber lobby also to see how we can have may be some strategic inventory kept so that we do not have such volatility in rubber prices. It is something where we are working jointly and we hope we are able to come to a solution where the farmer does not suffer too much as well in the case where global raw material prices have crashed. So I do not see any major impact coming in now because no solution yet has been found, but we are working together to see how we can do something.

**Aniket Mhatre**: So at the moment, your rubber inventory would be how much?

**Anant Goenka**: Perhaps about a month or so, again domestic inventory would be about 10-15 days and international inventory would be about a month and a quarter or so.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Aniket Mhatre for closing comments.

**Aniket Mhatre**: Thanks Margaret. I would like to thank the senior management team of CEAT especially Mr. Anant Goenka and Mr. Subba Rao for taking their timeout for the call. Thank you very much gentlemen. Thank you to all the participants for being there on the call. Thank you and have a nice day.

**Moderator:** Thank you. On behalf of Standard Chartered Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.