



“CEAT Limited Q3 FY2017 Earnings
Conference Call”

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- Moderator:** Ladies and Gentlemen, good Day and Welcome to the CEAT Limited Q3 FY2017 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you and over to you, Sir!
- Nishant Vass:** Thank you, Janis. Good day everyone. Thanks for joining us today for the CEAT Limited Conference Call. From the Management side, we are represented by Mr. Anant Goenka, Managing Director, CEAT Limited and Mr. Kumar Subbiah, The Chief Financial Officer, CEAT Limited. I hand over the call to the management team.
- Anant Goenka:** Thank you, Nishant. Good afternoon and a very warm welcome. I am Anant Goenka, Managing Director of CEAT and I have with me our CFO, Kumar Subbiah and Arnab Banerjee, Our Head of Operations. I briefly share with you our results and a few key parameters relating to our results before opening up for questions.
- Some data on year-on-year basis: CEAT registered a 5.4% net sales growth on a year-on-year basis driven by volume growth of 10.7% and price and mix contributed negatively by about 5%. On the volume front we saw a strong growth in the export market by over 20% and domestic market by about 8%. Raw material prices were largely flat on a year-on-year basis.
- Some data on quarter-and-quarter analysis: On a quarter-on-quarter basis our net sales showed a negative growth of 2.2%. This was on account of marginal volume decline largely owing to demonetization. Exports grew by about 5% while domestic volume saw a decline of 4%.
- Some highlights for the quarter: On the marketing front we launched our new TV campaign called "CEAT-it Helps", which is focused on the issue of jaywalking on our roads and people who do not follow road instructions. We also carried out a social media campaign called "No More Funny", which focuses on the issue of drunk driving. Both these campaigns are in line with our larger purpose of making mobility safer and smarter every day.
- In the last quarter, we tied-up with Renault and Autocar for a long journey from Delhi to Paris through difficult terrains wherein Renault Kwid ran on CEAT summer and winter tyers and I am happy to say it happened without a single puncture.
- In addition to summer and winter tyers launched over the last few quarters in Europe, we have extended our European tyre portfolio with the launch of Endura Drive Tyres which cater to the van segment in Europe and deliver on two primary customer requirements which is long life and loading capability.

It also gives me pleasure to share that India's first indigenously developed electric motorcycle - the Tork T6X was launched on CEAT Tyres. With respect to some margin information, margins have largely declined because of demand drop in passenger and two wheeler segments on account of demonetization and a small increase in raw material cost that we experienced in Q3.

On the raw material front we have seen prices taking an upward trend especially at a quite high level over the last few months. This is expected to put some pressure on margins if we are not able to compensate with price increases.

There are some more details for which I will hand over the call to Kumar Subbiah, our CFO who will talk about the financials.

Kumar Subbiah:

Thank you Anant, hello all. As Anant briefed you on revenue, I will present before you the key financials relating to the quarter.

Our consolidated gross margins for the quarter stood at 40.8%. It has contracted by about 140 basis points sequentially and by 360 basis points over the same period last year.

Our consolidated EBITDA stood at about 158 Crores in Q3 versus 194 Crores in the previous quarter and 201 Crores in the same quarter of last year. So the EBITDA margin has contracted by about 230 basis points quarter-on-quarter and about 380 basis points year-on-year.

Our consolidated PAT stood at about 84 Crores in Q3 versus 107 Crores in Q2 and 112 Crores in Q3 financial year 2016.

Depreciation during the quarter was higher due to progressive capitalization of our new facilities at Halol and Nagpur. Also other non-operating income for the quarter includes dividend from Sri Lanka to the tune of about 16 Crores.

In line with our strategic focus, we shall be investing 2800 Crores over the next five years to create new capacities. With this CEATs capacity will go up by 1 million tyres in TBRs, 17 million in two-wheeler tyres and about 6 million in PCR tyres per annum.

The increase in capital investment will continue to focus on strengthening our balance sheet. In addition to credit rating upgrade by CARE ratings in Q2 2017, India Ratings and Research is also upgraded our credit rating to AA from AA-. Consolidated debt stood at 834 Crores as of end December 2016, which is higher than the previous quarter from 770 Crores and 725 Crores in the same period last year.

On a year-on-year basis, our debt equity ratio remained at a healthy level of 0.4 and debt EBITDA stood at 1.3 times. Our ROE and ROCE stood at 18% and 13% respectively. As regards our operations at Sri Lanka through a JV on year-on-year basis revenue degrew by 8.5% with a volume decline of 16%; however, EBITDA remained healthy at 22.4%.

With this we will now open the Q&A. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Good evening Sir. Can you please share with us category wise volume growth or decline in Q3 and what is the current demand situation especially in two wheeler segment have we seen demand normalizing in the replacement market?

Anant Goenka: The data you wanted on a year-on-year or quarter-on-quarter basis?

Nitesh Sharma: Year-on-year would be helpful.

Anant Goenka: So year-on-year basis I say largely we have been doing pretty well on our two-wheeler and passenger car segments. I would say particularly areas so we grown all the way between 8% and 20% in various categories. The area, which was a little bit of an anomaly, was our motorcycle growth, which actually showed negative year-on-year volume growth largely on account of demonetization, so we were showing growth of nearly 20% to 30% kind of levels, but latter half of November and all of December were disappointing. I would say this has carried on a little bit till January, but I would say from my belief is that from the latter half of February or March onwards, I think, the two wheeler segment should pickup. Generally all other categories have shown smaller growth but I would say if you look at a quarter-on-quarter basis, most of the passenger segments have shown negative growth in the replacement segment as well as largely on OEMs varying from nearly -10 to -20 kind of levels of growth on a quarter-on-quarter level. I have given you a broad level data. I would not be able to share with you exact category wise numbers.

Nitesh Sharma: Sir also in terms of margin pressure that we have seen how much of it do you attribute it to mix and how much to the raw material cost pressures and how much price hike we have taken in January, February if you could help us with that and the strategy in terms of pricing going ahead, because competition has already taken price hikes in the range of 2% to 5% and what we hear is CEAT has not per se taken any large price hike yet?

Anant Goenka: With respect to mix, there was a little bit of an adverse market mix largely because we showed a slower growth or negative growth in the passenger segments, which is car, UV and two-wheeler segments. With respect to pricing in quarter three there was no major pricing action that was taken and in Q4 also there has been only a marginal price increase of about 0.5% taken. As competition what we hear is that no one has yet taken a price increase but more rather announced price increases all the way sometime between February 5 to February 15. We will be also taking price increases depending on competitive action at least as much as competition is taking. So to that extent I do see an environment in the next 10, 15 days time that we will be taking some price increases. That could vary from 2% to 5% and could vary between each category. Any question I missed out?

- Nitesh Sharma:** Do you see margins normalizing sometime in Q1? nearly normalizing in Q1 on the back of price actions?
- Anant Goenka:** No, not at all. I think margins will be under fair amount of pressure and possibility and the maximum pressure in Q1 of the next financial year. So if you look at raw material prices particularly rubber has gone up over the course of time between say December 1 until now and therefore a lot of the purchases that we have done at this point of time will start getting consumed in Q1. So rubber, which has gone up from about Rs.105, Rs.110 per kg it, is now at above Rs.160 per kg so we are seeing large jump of raw materials. On an average about 20% to 25%, that will really hit us in Q1 and I do not see as we able to compensate with an adequate price increase, so some amount we will be able to pass on but some amount will hit up the margins in Q1.
- Nitesh Sharma:** Just to get a fair idea would we be requiring 7% to 8% price hike to totally negate the raw material cost pressure in Q1 or even higher?
- Anant Goenka:** Yes, that is between 7% and 9% or so approximately.
- Nitesh Sharma:** Thank you. I will come back in the queue.
- Moderator:** Thank you. We will take the next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir you mentioned that the motorcycle sales declined during the quarter Y-o-Y, but if I look at the mix in six months what was the penetration and nine months both shows 29% of sales coming from two wheelers is there any anomaly over there?
- Anant Goenka:** Yes so largely mix overtime if you look at YTD kind of data of course our mix has been good. It is only in the month of end of November to in the last post demonetization is where this has shown a negative growth.
- Ashutosh Tiwari:** So is it only limited to motorcycle or scooter and everything else has declined Y-o-Y?
- Anant Goenka:** On a year-on-year basis it is largely on the motorcycle front, scooter being an area where we have added also a fair amount of capacity has shown positive growth, but motorcycle particularly has been an anomaly.
- Ashutosh Tiwari:** On the overall growth three-wheeler combined that you show in the initial part, how much growth that would have seen in terms of volumes roughly not exact number?
- Anant Goenka:** Repeat your question sorry.
- Ashutosh Tiwari:** Sir I am saying that you report in that presentation two, three wheelers contribution in sales so how much volume growth that whole put together motorcycle, scooters, three wheeler would have grown Y-o-Y in terms of volumes?

- Anant Goenka:** Year-on-year it would largely be it would not be very different.
- Ashutosh Tiwari:** Okay you are saying the similar only.
- Anant Goenka:** Yes it would have come down a little bit on the motorcycle front.
- Ashutosh Tiwari:** Because if I look at revenue number in terms of growth it has grown by 5% Y-o-Y in two, three wheelers that you report this quarter versus last year same quarter. Secondly on the price increase, which is 2% to 5%, price increase is possible. So will the quantum be higher in say two-wheeler, four-wheeler and lower in T&B segment?
- Anant Goenka:** Again as I said it depends on competitive action I think there is a higher chance of maybe price increase on the passenger segment depending on what and how competition behaves on other categories we will react also accordingly.
- Ashutosh Tiwari:** But as of now we have no price increase?
- Anant Goenka:** Till date we have not. No price increase has come into effect except for about 0.5% that has happened but the balance will happen over the course of the next possibly week, ten days time.
- Ashutosh Tiwari:** Sir how do you see demand scenario in truck segment and all post demonetization how do you see Y-o-Y growth?
- Anant Goenka:** On the truck segment, it has been a little bit more positive than other categories because to a certain extent Chinese tyres have got reduced so Chinese tyres in the trucks radial segment was about nearly 30% market share. They have had to take up their prices by about 10% to 15% because of this, so to that extent has been a little bit more positive. Whereas as I said on the passenger side things have been quite negative. My prediction or guess is that between March, April kind of time period I think we should go back to close to normal sales.
- Ashutosh Tiwari:** Sir any update on the new this OTR plant when will that come up?
- Anant Goenka:** Yes we are largely on track. We should be declaring commercial production sometime in May of this year while the first few trials will start off in about a months time, couple of months after that we will declare commercial production.
- Ashutosh Tiwari:** So how shall your capex for next year and how much we are spending this year?
- Anant Goenka:** So our routine capex that we do in our existing plants, moulds etc., that we buy is about 100 Crores, that continues year-on-year. On top of that we will have some new capacity expansions that will be looking at which would be in the range of about 500 to 700 Crores.
- Ashutosh Tiwari:** Next year, and how much we spend this year?

- Kumar Subbiah:** Overall total capex that we have spend this year is about 384 Crores.
- Ashutosh Tiwari:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Raunak Sarda from Axis Capital. Please go ahead.
- Raunak Sarda:** Thanks for the opportunity. Sir what is the status on antidumping duty on the Chinese tyres any update or what is your expectation now?
- Anant Goenka:** No we have not heard anything new on that. We were hoping for some news by December but we have not heard anything on antidumping duty yet. It is just a wait and watch game on that front.
- Raunak Sarda:** Does the reduction on import due to demonetisation impact the ruling in anyway?does that impact or change anything?
- Anant Goenka:** I do not know if it will have an impact on antidumping duty because the case that is final is on different kind of merit, but I say the demonetization has had an adverse impact on Chinese tyres.
- Raunak Sarda:** Sir when you say that you need 7% to 9% price hike to offset the entire raw material increase do you take into account the crude price increase which has led the increase in the synthetic rubber and tyre cords increase as well or is it just what we are talking about the natural rubber price increase?
- Anant Goenka:** No, we are talking about all raw materials.
- Raunak Sarda:** The entire raw material basket has gone up and we need at least 7%-9% price?
- Anant Goenka:** Yes.
- Raunak Sarda:** Thank you.
- Moderator:** Thank you. Next question is from the line of Viral Shah from Enam Holdings. Please go ahead.
- Paras:** This is Paras here. Sir I had a question on pricing in the two-wheeler tyres vis-à-vis the industry leader so currently what so anymore discount we will be add on an average basis?
- Anant Goenka:** It varies again category-to-category and it depends on what we are talking about what is getting sold directly to the customer or what we realize, I would not be able to share with you all the details, it is very difficult to go into that detail right now.
- Paras:** Sir, do we have any leeway in the variable expenditure so that this margin squeeze because of raw material cost pressure can be negated further?

- Anant Goenka:** Sorry could you repeat again?
- Paras:** I am saying do we have any leeway in the variable expenditure so that the cost pressure seen in the raw material can be negative slightly.
- Anant Goenka:** Yes, I think that effort is on. Of course we have to work towards continuously being more efficient, bringing down opex or other costs that are there and we will be taking lot of actions in the next few months on making sure that we can negate as much as possible.
- Paras:** Sir just a question on this Chinese market share what will be it currently on the TBR side?
- Anant Goenka:** The TBR was about 30%. It could have come down. I do not have numbers specifically because it has been too recent a time period. We do not have data on say for example December or January imports of Chinese tyres but my guess is it would be somewhere between maybe around 20% to 25%, 5% to 7% drop.
- Paras:** Sir last one from my side is with margin squeezing happening which we are seeing in the next two quarters, how are you planning to fund your capex? will there be any delay in the capex or how are you planning to fund it? through debt?
- Anant Goenka:** It should be through debt and internal funding whatever that would be coming in. We are at a relatively comfortable position at a debt equity level and this is the capex that we planned, we will be continuously doing capex as we utilized our capacity. It could be a quarter up and down depending on this impact of demonetization, but broadly we will be funding with the debt and internal accruals.
- Paras:** Sir typically what kind of raw material inventory do you have across rubber and the other raw materials?
- Anant Goenka:** The cover varies depending on whether we buy materials locally or whether we import, the lead times or longer in case of imports. So I think it would vary anywhere between six and twelve weeks depending on materials.
- Paras:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.
- Basudev Banerjee:** Thanks for taking my question. A couple of questions, one is sir as of this quarter what percentage of your natural rubber was sourced from domestic and how much was imported?
- Anant Goenka:** This again depends a lot on strategic decisions that are taken. Technically it can vary from 20% imports to 80% imports so that is the kind of range that we can do now. Difficult to give a number, I will tell you what basically has happened. What has happened is that domestic prices

are lower than international prices at this point in time, which is not common and therefore it is natural that one would do higher amount of domestic buying in this scenario. If you look at it before November or so I think international prices were lower and therefore international buying was higher it has been a more shift towards domestic buying.

Basudev Banerjee: But Sir if one sees the Rubber Board of India data the domestic supply is always less than the demand and for last many years, quantum of imports have been inching up only and many variance of rubber are compulsorily imported. So with the global rubber prices being much more than domestic, so how are you managing that aspect Sir?

Anant Goenka: India's production of natural rubber, sheet rubber is approximately 6 lakh tonnes and India's demand of natural rubber is in the range of close to about 1 million tonnes. So there is a gap between the local production vis-à-vis the demand. So therefore we do buy different grades of rubber from the international market and different grades of rubber from the local market. However there is some level of flexibility that exist, so depending on availability of material and also take quality requirement, okay we do change our ratios, but the India's production is lower than India's demand.

Basudev Banerjee: So on that angle only Sir just, will it be possible for you to highlight what was that ratio in Q3 of your sourcing of domestic and external?

Anant Goenka: No.

Basudev Banerjee: Second thing sir nice to see that you have announced your manager TBR expansion plan. So by when one can expect this new TBR capacity to be on-stream?

Anant Goenka: Yes, we have not even started it yet, and anything was to happen it would be about a year and a half at least.

Basudev Banerjee: So broadly one can expect from FY2020 per se.

Anant Goenka: Maybe latter half of FY2019, I agree with you it will take nine months or so to ramp up. So FY2019–2020.

Basudev Banerjee: Sir one thing I missed out maybe people asked in this question, Sir if I see your volume figure year-on-year it is up by 10.8% from 65200 to 72300 and I suppose you said in the call that your volume year-on-year in PCR, UV and two wheeler declined? am I right?

Anant Goenka: No, not on a year-on-year basis, on a quarter-on-quarter basis.

Basudev Banerjee: Okay so year-on-year basis what would be the growth in the respective segment Sir?

Anant Goenka: As I said we have seen a decline largely a little bit in the motorcycle segment.

- Basudev Banerjee:** Year-on-year.
- Anant Goenka:** Year-on-year, all other categories we have seen a little bit growth.
- Basudev Banerjee:** Basically a 10% growth with two-wheelers declining implies truck volume to be up northward of 15%-odd Sir?
- Anant Goenka:** Sorry could you repeat that?
- Basudev Banerjee:** If one takes two-wheeler decline mode, which contributes almost 28%- 30% of your business, so that implies the T&B tyres that segment must have growth north of 15%?
- Anant Goenka:** No, truck would have grown by about 5% to 7%, but we have largely seen better growth, good growth in the tractor segment, which would be north of about 30% and we have seen good growth in LCV of over 10%, that also has grown well.
- Basudev Banerjee:** Thank you.
- Moderator:** Thank you. Next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** I just wanted to understand since you are saying that rubber is now up to Rs.160 a kg what was the average rubber cost for Q3?
- Anant Goenka:** Average rubber cost for Q3, it would be as I said about rubber was prevailing at Rs.110 or so at ex-cochin kind of level, if you take a landed price it would be another Rs.15 to Rs.20 higher.
- Mayur Milak:** No so what I am trying to understand is you would be getting some low cost inventory so your average for Q3 would have been much lower than what rubber price are right now?
- Anant Goenka:** Absolutely.
- Mayur Milak:** So which means it, if I have to look at let us say another 2% to 5% kind of price hike which we think is possible in a quarter and then probably look at another action, which comes in Q1, so this Q4 will also typically look a little weaker in terms of margins compared to Q3?
- Anant Goenka:** Yes, I think, there can be some margin pressure in Q4 as well but I say the price hike was sharper towards the more recent times which will therefore I think the even larger impact will come in Q1.
- Mayur Milak:** Just coming to your brand building spend, typically we have seen as you have mentioned that the new campaign came over and you always had historically some quarters which relative effect a huge cost into your spend in the marketing spend, so is there anything specifically planned for Q4 or because I think for the IPL again Q1 should be the one that should really see the impact?

- Anant Goenka:** Yes at least in quarter four we are maintaining our ad spends as we have been on average. It is seasonally as you rightly as you said that it can go up in one quarter and down but broadly we had continue with the ad plans as per the original plan. Q1 we still have to take a call depending on what how things work out, so that call still is pending, but for this financial year we are as per plan.
- Mayur Milak:** Thanks.
- Moderator:** Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Anant, if you can just run us through the kind of price hikes that we have done from September onwards. So we have done two or three price hikes including the last one right. So can you just help us understand?
- Anant Goenka:** I am going to try and recollect as much as I can, I may be off a little bit, but I know that we have approximately took a 2% or so price hike in October for passenger car tyres and then we taken a price hike of about 0.5% or so on Feb 1st in various categories so these are the two price hikes taken until now.
- Chirag Shah:** You are saying that in Q4 the pressure of commodities will not be as significant sequentially, it would be more severe in Q1?
- Anant Goenka:** Yes.
- Chirag Shah:** So you do not need to take further price hike to maintain current EBITDA per tonne assuming the product mix stays where it is right?
- Anant Goenka:** No, I think there will be some pressure on Q1 and Q4 as well, we do need to take price increase for maintaining margin in Q4 but I say it will be even more adverse in quarter one, so I say this kind of quarter four is a transition period and let us see what happens in the next ten days in terms of pricing action.
- Chirag Shah:** So what stops the industry from taking a price hike, because I am seeing entire industry seems to be taking a very measured price hike in this scenario?
- Anant Goenka:** What stops is basically competition, that is all, so there is nothing else that really we can say of what is stopping the industry.
- Chirag Shah:** But each of you to decide to take a price hike on your own, then there is no question. That is what happens in a car industry for example or a battery industry?
- Anant Goenka:** Right.

- Chirag Shah:** So in a scenario where the increase is so steep that you can save a 2%, 3% here and there by your efficiencies and better planning. Is the demand scenario weak and under utilization risks are there which is prohibiting industry from taking price hikes?
- Anant Goenka:** Sorry could you repeat it again?
- Chirag Shah:** Is there the demand scenario has suddenly gone very weak or there is under utilization risks, which is prohibiting players from taking price hike?
- Anant Goenka:** No, I cannot specifically say that on the demand side you know what has happened with respect to demonetization and besides that I would say that it is really competition. We cannot really say anything else what is restricting price hikes.
- Chirag Shah:** Fair point, and internally if I have to look at it what is the base level of return on capital employed you would be working on to form a view that this is enough we cannot go beyond this number and if it requires you take a price hike and lose some market share we are willing to do that is there a thought process internally of that sort?
- Kumar Subbiah:** No, I do not think we are not using return on capital employed for the purpose of pricing. We do that while evaluating our major capital expenditure proposals in terms of whether that capital investment is giving us the desired returns, but however having invested in capacities, we always need to react based on what competition is doing and therefore the return on capital employed is not a measure for us to take decision on that.
- Chirag Shah:** Thank you.
- Moderator:** Thank you. Next question is from the line of Siddhart Vora from Religare Capital Market. Please go ahead.
- Siddhart Vora:** Thank you for taking my question. Anant in the truck and bus segment we saw really good pick up this quarter based on this Q-o-Q revenue growth which we have seen, which you have given in the presentation, this was entirely because of demonetization? do you see this trend to continue in terms of the revenues?
- Anant Goenka:** I will just ask Arnab to answer this question.
- Arnab Banerjee:** Can you please repeat the question?
- Siddhart Vora:** Truck and bus revenues went up around 15% Q-o-Q this quarter maybe because of lower import our Chinese imports so is this sustainable going ahead?
- Arnab Banerjee:** Sorry I could not get it, are you saying that whether the reduction in Chinese import will stay where it is?

- Siddhart Vora:** Yes.
- Arnab Banerjee:** Difficult to say. It has come down definitely which has created some space for domestic players in the TBR market, so we will have to wait and watch how things pan out till GST.
- Siddhart Vora:** In terms of their price hikes, which they have taken which Anant mentioned, so those will sustain do you think, those 10% to 15% or they can normalize to back to their original level?
- Arnab Banerjee:** Sorry can someone repeat the question for me please?
- Siddhart Vora:** In the call previously Anant mentioned that Chinese imports had to take a price hikes of around 10% to 15% during this quarter because of demonetization, so do you think these price levels will remain at this high levels or this will go back as the currency level normalizes?
- Arnab Banerjee:** There has been the price hike that has been announced so far for whatever we know are mostly on the passenger side. On the truck bus side, we are yet to decide on the price hike in the immediate term. In future given the raw material push that we have in order to maintain margins price hike is of course inevitable.
- Anant Goenka:** Just to add to that see I think you are asking particularly about Chinese tyres. On Chinese tyres as I said prices would have gone up by about 10%. It really depends on whether cash comes back into the system and how fast it comes back. I think, what generally we hear is it really depends on wherever they go back to high levels of cash purchase, which was happening in the past so to a certain extent I think it will come back down but not maybe to the fullest extent.
- Siddhart Vora:** Our exports have also shown a good jump during this quarter, any colour on that side?
- Anant Goenka:** I think that we are riding a little bit on a low export sales base. We saw a fair amount of decline that happened about in the last two years in exports largely because of radialisation that was happening in other countries and Chinese competition, so to that extent there was some positive impact but I say that overall we expect export growth to continue the way we have seen it on a year-on-year kind of basis level.
- Siddhart Vora:** This trend will continue in terms of numbers this quarter?
- Anant Goenka:** Yes, I will say overall a positive trend, not maybe to the extent that we saw in Q3.
- Siddhart Vora:** Just a query on these raw materials, which is going to impact in Q1, for OEMs we pass that through in that quarter itself. How is the mechanism?
- Anant Goenka:** Yes, so with number our OEMs we have a kind of a raw materials link to the pricing, that happens it is about nearly 70% of our OEMs so that gets automatically passed on, with about 30% you have to go back and negotiate with them.

- Siddhart Vora:** And will that be the case for export as well, we can take price hikes in line with the raw material?
- Anant Goenka:** Exports has been a little easier. We have already taken a price hike of about 4%, 5% so let us see. I think, we have to still catch up to a certain extent.
- Siddhart Vora:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Shyam Sundar from JM Financial. Please go ahead.
- Shyam Sundar:** Thanks for the opportunity. Sir, there have been multiple questions on the Chinese truck radial market shrinking and I just want to understand what has led to this shrinkage in the Chinese truck radial market. This is primarily to understand if the Chinese truck radials would come back again in a very short span of time or would we continue to gain advantage from this vacuum created by the Chinese tyres?
- Anant Goenka:** I think Chinese tyres were largely traded a lot or dealt a lot in cash and therefore all the necessary taxes, VAT etc., were not fully paid on the full value and therefore now with demonetization happening that caused a decline and people have to pay tax and therefore the prices went up. Now as I said that it depends on first of all whether cash will come back into the system and people will start going back to purchasing tyres in cash, which is a fair chance of that happening at least to a certain extent. So as I said that it temporarily could come down. I think GST will again have a positive impact on us in terms of further making sure that taxes are paid and that could further have an adverse impact on Chinese tyres from say July 1 or whenever GST gets announced.
- Shyam Sundar:** Sir that helps, just in terms of our finished goods inventory position and channel inventory, is it on the normal levels or has it gone up post demonetization or any colour on that?
- Anant Goenka:** Finished goods inventory is slightly higher than normal level. That is because of lower sales and what happened particularly also we are being a little cautious in terms of keeping extra stock in case the market bounces back towards saying that okay we had not purchased tyres at this time we need to go back and buy maybe 120% etc., of what we had done. So to that extent there is higher FG inventory at this point.
- Shyam Sundar:** Thank you Sir. Sir just one more question on the OTR market opportunity in terms of our Ambarnath plant just can you explain what is the exact addressable market space and given that we are going into production very soon just a more colour on that opportunity sir if you can?
- Anant Goenka:** So the OTR market to us is a very exciting market, margins in these categories are very high. The nature of doing business is quite different since it is nearly 100% export, competitive intensity is relatively lower and I say in India we have a labour arbitrage of a fair amount versus the international player so to us this is pretty exiting. I would say the current capacity that we are setting up is so small really does not matter of whether there is growth or negative growth in the

market at this point of time. When we grow to higher levels it will make a difference, but right now we are just to drop in the ocean. It is fairly a 40 tonne per day plant, so it is really small one what we are setting up right now. It is more about trials, getting our quality first time right, getting customers to appreciate and accept the tyre first and then we will look at scaling up may be in about a year's time.

Shyam Sundar: Sir just one if I can squeeze in one last question, as a part of our long-term capex plan we are also expanding our TBR capacity given a strategic growth areas more towards a passenger and specialty tyres what would be our strong strategic reasons for doing this and if you can add some colour on that?

Anant Goenka: I think the truck market is the large market, it is nearly 40% to 50% of the entire tyre market is truck, so we do not want to necessarily exit that space but at least maintain our current market share of about 10% to 15% range going forward. Truck bias is going to decline so to maintain our current market share is why we are setting this capacity up because we know over the next three years bias will go down and that needs to be replaced by some other capacities, so while we are not looking at leadership or anything in this category we want to maintain our market share.

Shyam Sundar: Sir just what would be our current market share in TBR?

Anant Goenka: It would be just about maybe 5% kind of levels.

Shyam Sundar: Thank you Sir. That is it from my side.

Moderator: Thank you. Next question is from the line of Nikhil Ranka from Reliance Treasury. Please go ahead.

Pramod: Just one question, what will be the capacity utilization for this fiscal for the two-wheeler segment considering the closing capacity that you have as of now?

Anant Goenka: Utilization would be at over 95% kind of utilization.

Pramod: Yes this will include the outsourcing part as well right.

Anant Goenka: Yes.

Pramod: Thanks.

Moderator: Thank you. Next question is from the line of Laxminarayanan K from Catamaran. Please go ahead.

Laxminarayanan K: Thanks for taking my question. There is one question pertaining to the TBR segment. There is intending policy on vehicle scrappage and what I understand is somewhere between 25% and 35% of vehicles in the truck and bus segment are more than ten years old, so if that happens that

would be a significant impact for your TBR capacity and growth. Have you done some scenario analysis to see how it is going to help you and what are the steps you are taking to get that demand in case it comes by?

Anant Goenka: For us, I think, we are relatively small. As I shared our market share is just about 5% in truck radial whereas in truck bias, it is quite large at about relatively larger at about 12% to 15% kind of levels so we feel that with the new capacities coming in we would be able to take it up to that level. On vehicle scrappage what will happen is that the demand comes up it will primarily come in the OEM segments whereas for us our focus will be more on the replacement category where margins are higher, so even if we were to grow in the OEM segment to a larger extent I think it would not have much impact on margins, so to me a better measure of success would be our sales in replacement which hopefully will pickup to higher levels as our capacities come in.

Laxminarayanan K: You mentioned that you have a significant capacity on bias tyres on replacement, so in case this thing comes up, does it actually help you or is it like a, because I assume that all the new vehicles will be in the radial segment because of the OE sales and that will have an impact?

Anant Goenka: No, I think, it would not make a difference to us because even if bias tyres get replaced by radials, I think it is a good thing, our capacities will be coming up and therefore it will be sitting in well with our long-term demand. I do not think it should make any specific difference it is just one or the other.

Laxminarayanan K: Just one other thing you had mentioned in your presentation that your two-wheeler volume growth has been 20% YTD?

Anant Goenka: YTD?

Laxminarayanan K: Yes, volume growth in two wheelers and three wheeler tyres?

Anant Goenka: It would be at pretty high except for if you were to look at it on with respect to last quarter our growth levels have been at 20% plus kind of level.

Laxminarayanan K: I am referring to the page 22 where you mentioned YTD December 2016 volume growth in two wheelers is 20%?

Anant Goenka: So that would be correct.

Laxminarayanan K: What is the value growth there?

Anant Goenka: Value growth I do not have that specific data here with me, but it would be about 7%, 8% less, because there was approximately price drop to that extent early part of the year.

Laxminarayanan K: Thank you so much.

- Moderator:** Thank you. Next question is from the line of Mahesh Bendre from Way 2 Wealth Securities. Please go ahead.
- Mahesh Bendre:** My questions have been answered. Thank you.
- Moderator:** Thank you. Next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.
- Ujwal Shah:** Thank you for taking my question. Considering that we have done extremely well in two-wheeler space over the last three to five years and our new capacities are coming in the two-wheeler and passenger vehicle space with the current market scenario and increasing competition be it on two-wheeler side or in the passenger vehicle side, what is our growth strategy for both of these segments for next two to three years?
- Anant Goenka:** Yes, so our strategy largely continues to be the same, so on the two-wheeler side we are still looking at further market share growth. Our capacities are still ramping up in Nagpur. We are looking at another 7 or 8 lakh tyres still to come up in our Nagpur plant. Till November our stock out level continues to be quite high at about 10%, 15%. Of course post November it was a little different but if things resume back to normal, we will be able to utilize our capacities quite well, also what is happening is that the growth in the scooter segment as I said has been very fast relative to even in the motorcycle segment and most of the capacities coming up now are in the scooter segment from Nagpur plant. Then further going forward it will be more about continuously spending on brands, on making sure our distribution gets deeper and deeper into smaller parts of rural India serving the smallest mechanics in rural India etc., will be our core part of our strategy in the two wheeler space. On the passenger car space I think we have enough headroom to grow further. Our market share is still at about somewhere between 8% and 12% kind of range levels so there is enough space for us to grow I think our brand equity is strong enough to take us another 5%-7% and we have to invest further in setting up more CEAT shops which are dedicated outlets deepen our presence in multibrand outlets and continuously launch more and more products so we are working towards premiumizing coming out with higher range size products etc., so these are just some strategies that we are working on, on both these segments.
- Ujwal Shah:** Sir on the OTR space in terms of distribution specifically in the US and European markets how it would be done?
- Anant Goenka:** We already have a distribution network. We sell off highway bias tyres which we have been doing for over 10-15 years so to that extent we already have a readymade distribution so once our product is out we just need to supply to those distributors and we will add a few of course, wherever the gaps are there country wise.
- Ujwal Shah:** Thanks a lot.

- Moderator:** Thank you. We take the next question from the line of Sachin Kasera from Lucky Investment. Please go ahead.
- Sachin Kasera:** Just two, three questions. One you mentioned about the fact that there are growth in exports has come back, is it maybe from the traditional markets or is it, you also mentioned that you are starting to enter into the European market so the growth is also coming from there?
- Anant Goenka:** Sachin growth in exports will come back only to a certain extent, last quarter was a high growth month but I would say that this kind of growth may not be continuous going forward but I expect to see about a 10% kind of growth level going forward in exports. Arnab would you like to add anything?
- Arnab Banerjee:** To answer specifically to the question, our growth has come from the traditional markets of around India and Africa, which is Middle East, South East, Africa, Europe is also doing well, but Europe is a small base of growth may look great there but where they started off and we are doing well in Europe.
- Sachin Kasera:** Sir what are your plans for Europe? You see Europe can be a large market for our in our overall basket of exports in the next three to five years?
- Arnab Banerjee:** Yes we have just, as I said we have taken off in Europe. Just now so far we have got excellent response in couple of countries so our idea is just to build the business by developing the distribution network and the product range in Europe. We expect to hit to grow to a big business in the coming times.
- Sachin Kasera:** My second question was Sir regarding the TBB capacities. As you mentioned that the market is going to aggressively now more towards the radials that even one of the commercial segment of the business, so considering that Nagpur and Bhandup, are primarily bias capacities is there a thought process to because there were large fixed cost that we are incurring there, how do we mitigate because if the production is going to go down, fixed cost is going to hit us very badly? What is the plan on that front?
- Anant Goenka:** Yes I think at some point of time the capacities will have to be rationalized. Bhandup and Nasik plants are largely bias. Eventually the capacities will have to be rationalized and maybe between the two plants, we will have to have one more efficient or relatively more efficient plant. It is still some time away but we cannot continue to run if capacities come down, fortunately the negative growth in the last few years has been limited to maybe -1%, -2% kind of levels so to that extent if we try to minimize the negative growth of truck bias.
- Sachin Kasera:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Kunal Khatwani from CRISIL. Please go ahead.

- Kunal Khatwani:** Just wanted to check what is the total capacity for two wheelers, TBR and PCR?
- Anant Goenka:** 250-270 tonnes per day.
- Kunal Khatwani:** TBR, PCR also.
- Anant Goenka:** TBR is about 80 tonnes per day and passenger car will be about 150-160 tonnes per day.
- Kunal Khatwani:** The exit capacity for the year would remain almost the same for the three?
- Anant Goenka:** Yes.
- Kunal Khatwani:** And when do we see the two plants Nagpur and Halol being completed?
- Anant Goenka:** Nagpur will be completed in about six months time, Halol will be completed in about four months time.
- Kunal Khatwani:** TBR capacity the 80 tonnes per day is present only at Halol?
- Anant Goenka:** Yes.
- Kunal Khatwani:** Do you have any excise benefits for any of the new plants?
- Anant Goenka:** Nagpur is the only new location that we set up where we do not have any excise benefit, anyway the GST it will go away.
- Kunal Khatwani:** Thanks. That is it.
- Moderator:** Thank you. Next question is from the line of Shreenath Shridher from ICICI Securities. Please go ahead.
- Shreenath Shridher:** I just wanted to know what is the nine-month volume growth in tyre sales across the segments if you can mention?
- Anant Goenka:** Yes, approximately volume growth YTD has been about 10%-12% growth.
- Shreenath Shridher:** You said that tractor segment leading the way right with 30% growth?
- Anant Goenka:** Tractors relatively maybe the highest. This tractor, which I shared with you about more on Q3 kind of data but even on the whole year has grown very well.
- Shreenath Shridher:** And motorcycle at the same time?
- Anant Goenka:** The motorcycle would have grown at also 20% plus kind of levels on the year-on-year basis.

- Shreenath Shridher:** I would like also like to know what is the percentage of carbon black prices on your raw material?
- Anant Goenka:** Carbon black would be about 10% to 12% of our total in value terms.
- Shreenath Shridher:** Okay 10% to 12% of your raw material cost.
- Anant Goenka:** Yes.
- Shreenath Shridher:** What is the current price of carbon black?
- Anant Goenka:** It is somewhere around maybe between Rs.53 and Rs.57 or Rs.58 somewhere in that range.
- Shreenath Shridher:** How do you see the volume growth going forward next year?
- Anant Goenka:** Volume going forward next year, difficult to give a number, but I think a similar kind of growth levels.
- Shreenath Shridher:** It is about 10% to 12% volume growth.
- Anant Goenka:** Yes I think so around that range.
- Shreenath Shridher:** Thanks.
- Moderator:** Thank you. Next question is from the line of Nitesh Sharma from Phillip Capital. Please go ahead.
- Nitesh Sharma:** Sir one quick question, we were hearing that M&HCV tyres might come under 18% GST bracket so any clarity on that front?
- Anant Goenka:** Even we are waiting for clarity. We have not heard anything yet.
- Nitesh Sharma:** Thank you.
- Moderator:** Thank you. Next question is from the line of Vijay Gianchandani from Elara Capital.
- Vijay Gianchandani:** Thanks for taking my question. Just one quick question, if you can throw some light on your specialty segment, which has seen a sharp decline quarter-on-quarter and year-on-year to the overall mix?
- Anant Goenka:** Specialty overall continues to do as similar to other categories. I am not sure about the data that you are seeing maybe to do with something along with internal transfer pricing or something but at an overall level specialty continue to do quite well at about maybe 10% kind of growth. I am



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not sure where you got this data. Specialty tyres continue to do well business. We have shown growth over last year.

Vijay Gianchandani: Thank you.

Moderator: Thank you. That was the last question, I now hand the floor over to the management for their closing comments.

Anant Goenka: Thank you, Nishant and team for organizing this and thank you all for your time and interest in CEAT. Look forward to catching up once again next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining. You may now disconnect your lines.