"CEAT Limited 2QFY14 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the CEAT 2QFY14 Earnings Conference Call hosted by Ambit Capital. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Ashvin Shetty. Thank you. And over to you sir.

Ashvin Shetty: Good evening, ladies and gentlemen. On behalf of Ambit Capital, I welcome you all to the 2QFY14 Post Results Conference Call of CEAT Limited. CEAT is today represented by its Managing Director, Mr. Anant Goenka; and the Chief Financial Officer, Mr. Subba Rao. I now hand over the call to Mr. Goenka for his opening comments, and then we can start the Q&A session. Over to you, sir.

Anant Goenka: Thanks, Ashvin. Good afternoon and a very warm welcome to CEAT's quarterly investor call. I am Anant Goenka, the Managing Director and I have with me Mr. Subba Rao, our CFO. Thank you very much for your interest in CEAT and I will share with you briefly a few key parameters related to our results and then we will be happy to take questions after that.

A little bit on our year-on-year growth. CEAT India registered 9% revenue growth on a year-on-year basis, driven by a volume growth of 11% and price and mix contributed to -2% growth. The 11% volume growth was mainly on account of strong growth in the Domestic market such as Two-wheelers, Utility vehicles and Passenger cars. A -2% price and mix was mainly on account of lower realisation as compared to last year. As you may know that last year raw material prices were relatively higher with profit during the year and therefore some of that benefit was passed on to the customers. However, the lower raw material cost more than offset the lower realisation and hence margins expanded by a healthy 640 basis points a year-on-year basis. On a quarter-on-quarter basis, CEAT India's revenues and volumes were flat.

Segment-wise, Replacement marginally degrew because of the seasonality factor, but it was compensated by growth in the OE business. On the raw materials side, due to a high percentage of imported natural rubber we were unaffected by the domestic natural rubber price increase which happened in July-August.

In terms of product category, we continue to grow in the two-wheelers and utility vehicles segments. Our 'Monsoon Smart' ad campaign was well received. However, the commercial vehicles segment has had some challenges mainly due to the weak macroeconomic environment. The Farm segment, on the other hand, grew well, both in the Replacement and OE markets aided by a strong monsoon.

In summary, our shift to a higher share of strategic business that is exports and passenger segment which is primarily two-wheelers, motor cycles, utility vehicles and passenger cars continued. It contributes now to 44% of volume in 1HFY14 compared to 33% three years ago.

As we have shared earlier, these are the higher profitable segments and are seeing good demand growth.

We are also happy to announce capacity expansion at our Halol plant in the PCR/UVR category. The total investment is about 650 crores which will be incurred over a period of 18 months, starting in the last quarter of this financial year. This will help us overcome supply constraints in these two categories and at peak capacity will help us generate turnover of about 1,000 crores.

With respect to our Bangladesh plant we have begun construction work at the site post monsoon, and are on track to have the plant ready by early 2015.

Going forward on the raw materials side, raw material prices came down from its peak of about Rs190 in July-August to about Rs160 today domestically. In the next few months we expect raw materials or at least natural rubber prices to remain at similar levels because supply generally at this point begins to go up. On the international front, rubber prices have marginally inched up and today are higher than domestic prices on duty basis.

I will now hand over the call to our CFO, Subba Rao, who will talk about a few key financial parameters.

Subba Rao Amarthaluru: Thank you, Anant. Good evening, ladies and gentlemen. Continuing Anant's briefing, I would just elaborate some of the financial issues. Our EBITDA for the quarter expanded 120bps quarter-on-quarter and 640bps year-on-year. Absolute EBITDA grew to 165 crores, one of the highest in quarterly EBITDA in the recent past. On a consolidated level, our PBT stood at 116 crores as compared to 6 crores last year and 98 crores in the earlier quarter. You may have noticed that the debt has increased this quarter by 270 crores as compared to 1Q and stood at 1,270 crores. This is primarily due to increase in short-term loans which have been borrowed to fund the increased imported natural rubber purchase in the quarter and higher finished goods inventory. This purchase was done primarily to take advantage of the price difference in the domestic market as compared to international natural rubber prices. In case of imports, we place advance orders and it reflects on the balance sheet even while the stocks are on a high phase. It was purely a tactical decision which is a strategy to take advantage of the lower of the prices in the markets. Once the imported natural inventory is liquidated this quarter, our short-term debt will come down. By the end of this current financial year we target to bring down the overall debt-equity to less than 1.

Our Sri Lanka JV has also recorded a healthy performance with 14% growth in revenue at 121 crores and profit before tax stood at 25 crores. This was driven by margin expansion of 560bps which now stand at 23%.

With this we now invite questions from you. We will be happy to answer.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I just wanted to get an insight on the capex and the working capital plan. What is the room that you have in reducing your working capital? You mentioned 650 crores in your opening remarks but if you could just break it up year-wise? And the second one was if you could give just re-profiling of your margins in exports, OEM and the replacement market?

Anant Goenka: With respect to working capital there is tremendous opportunity for reduction. If you look at the past working capital levels have been far lower. This quarter we did take a specific decision to take up both our raw materials inventory as well as finished goods inventory. Finished goods inventory because there was some risk of a labour strike. We took a call that let us take up inventories for that purpose which is now behind us. So we can start bringing that down again. So that was one with respect to working capital can comfortably come down and further payment of debt could happen over the next 3-4 months because there is no major capex besides Halol which will start only later on. With respect to capex, excluding the new Halol capex that we are looking at we have about 90-95 crores routine capex that is going to be happening this year, we have our Bangladesh capex which is largely already done. We have about maybe 7-8 crores further odd to 10 crores maybe further to be paid out, out there, and then finally, you will have your Halol capex that will happen. Out of the Halol capex largely you will have payments being divided over about four years, out of which say about 200 crores each would go out in the first two years and about 100-130 crores that will go out in the third year and about 100 crores in the fourth year. So broadly that is how this 650 crores is looking like going forward as well. On your other question, I will not be able to give you exact numbers but I can broadly tell you that currently exports margins are the highest, followed by Replacement, followed by OEM. Exports really depend on the rupee. So it had gone up to very high levels, even of course rupee was at 68, but clearly even now we are very comfortable with our Export margins which is the highest today.

Moderator: Thank you. The next question is from the line of Surjit Arora from Prabhudas Lilladher. Please go ahead.

Surjit Arora: I had two questions; one you said the imported natural rubber was quite higher during this quarter. So can you just give us the number, I mean, what proportion of your natural rubber requirement was imported this quarter?

Anant Goenka: Nearly about 70% of our raw material rubber was imported in this quarter.

Surjit Arora: This compares with preceding quarter?

Anant Goenka: On average in the year we would be doing about 30-35% maximum imported rubber, because that is what comes in duty-free. There was quite a gap. Rubber was actually hardly available because of very heavy monsoons in Kerala. So domestic rubber prices have reached about

Rs190 in July-August. So with zero availability we had to import and strategically also it made good sense.

Surjit Arora: And what was your growth in revenue terms in exports and can you break it up in terms of what you got due to the rupee depreciation and what was the volume growth there?

Anant Goenka: Exports largely remain flat for two or three reasons in tonnage terms. This was primarily because of rupee depreciation in key countries like Brazil, Indonesia and also political turmoil that happened in Syria, Egypt, and Middle East. So overall there were a lot of export challenges. We are taking a lot of initiatives but broadly the export numbers have remained flat on a quarter-on-quarter basis.

Surjit Arora: One final question, what has been the growth in the commercial vehicles replacement segment and what is the outlook there?

Anant Goenka: Commercial vehicles has been going through quite a tough time, broadly it has remained flat again on a quarter-on-quarter basis while Radial has seen some marginal growth. Truck Bus bias has been degrowing or it broadly remained flat again on a quarter-on-quarter basis. So as I said, largely, our growth which is about 10% growth in this year has come in from the Passenger segment which is growing very smartly at about +20% kind of a number.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.

Jasdeep Walia: Broadly, just wanted to have your thoughts on export realisation. Is it that this quarter has got the benefit on account of rupee depreciation and going forward possibly some of your export contracts will adjust to the new level of currency as in your realisation will go down, would something of that sort happen or your realisation will remain ?

Anant Goenka: In dollar terms, our realisations have come down because we passed on some of the benefits that have come to us, but in rupee terms they have continued to remain strong, because rupee over the last year and year and a half has depreciated from 52 to a dollar to now Rs61-62. Clearly, we gained a lot more than with respect to the amount we have passed on.

Jasdeep Walia: Do you expect to pass on some of the currency depreciation benefit going forward?

Anant Goenka: Currently, we are at a comfortable stage where we are. We already passed on maybe about half of the gain that has come in but we do not expect to pass on any more at this point of time.

Jasdeep Walia: So broadly, your margins in exports will remain stable?

Anant Goenka: Yes.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: On the capacity expansion, basically headed to two-wheelers or essentially passenger vehicles?

Anant Goenka: This is all passenger and utility vehicles radials.

Ashutosh Tiwari: That will be 650 crores you are talking about?

Anant Goenka: Yes.

Ashutosh Tiwari: In terms of tonnage, what capacity it will bring?

Anant Goenka: About 120 tonnes per day of capacity.

Ashutosh Tiwari: So you said that roughly 200 crores will be spent in FY15 and FY16 each, right?

Anant Goenka: Yes, during the project phase, largely we would be spending about 400-420 crores and post the project stage where you will still have certain payments going on, that will be about another 200 crores. So over a period of about four years you will have these payments happening. I shared with you the breakup.

Ashutosh Tiwari: Yes, and apart from that, the maintenance capex would be around 300 odd crores per year?

Anant Goenka: Routine capex 80-90 crores per year.

Ashutosh Tiwari: So you will be raising an additional debt for that or there will be…?

Anant Goenka: It will be a mix of internal accruals and debt.

Ashutosh Tiwari: So debt levels would not be going down from what it is currently because of the expansion now?

Anant Goenka: So they will be going down towards the course of the end of the year, but after that, yes, as we start investing, perhaps our debt levels will start going back up.

Ashutosh Tiwari: And any pricing action which was taken during the last quarter?

Anant Goenka: We took about 1.5% price increase between September 1 and October 1.

Ashutosh Tiwari: This is for which?

Anant Goenka: On average across categories. Largely in the Truck Bus Radial segment, it varies again by category-by-category, SKU-by-SKU, but to take average I would say 1.25% across the board.

Ashutosh Tiwari: And what was the average rubber cost for this quarter in rupee terms?

Anant Goenka: The prevailing price in the market on average would have been about Rs175/Kg or slightly higher in domestic terms. Even internationally, it would have been somewhere around similar levels, the prevailing price ex-Cochin equivalent.

Ashutosh Tiwari: What would it be for you basically in the last quarter?

Anant Goenka: I would not be able to share with you the exact number but broadly that was the prevailing price. So it depends on what price we have purchased at and what is the landed price. But that is broadly it would have been around that kind of a range, at about Rs175.

Ashutosh Tiwari: And what kind of inventory levels you have in terms of raw materials, in terms of months basically?

Anant Goenka: We have done very high import. Largely this import is the rubber that is going to get consumed in Q3 and domestic is something which we have to consume immediately. So within the first 15-20 days of booking is when you have to consume. So one does not keep high ddomestic inventory, it is all the imported inventory that will come in which will get consumed over the next couple of months.

Ashutosh Tiwari: But in terms of overall, some inventory you keep and others basically you have forward booking for the same. So roughly how many months of Rubber you had booked at the moment including inventory and forward booking?

Anant Goenka: Broadly, imported rubber which you can forward book. So I would say you could do about two months of rubber approximately, but that will get consumed over a period of time.

Moderator: Thank you. The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I just wanted to know in terms of ability to cut down on our consumption norm, RM-to-sales, things like using reclaimed rubber, is there room to use more reclaimed rubber in the future and things like that to cut down on RM-to-sales ratio?

Anant Goenka: This is a continuous improvement activity which we work towards, but it is very incremental over a long period of time. So we continuously try to make sure, okay, how much reclaimed rubber can you use, how much of synthetic rubber can you use and so on or lower cost rubbers that you can use and keeping the quality at the same level, but the changes that will happen will be very incremental, say 1-2% every year or every year and a half kind of a thing. So that is how it is done, but it is not something which is very easily doable. It is possible that okay, different types of rubber exist, can you take advantage of pricing, yes, you can do that, so there is something called 'block rubber' and 'sheet rubber' where you can start moving quantity based on pricing of that but otherwise to move towards reclaimed rubber is not very easy. So we do use reclaim, but it is a certain percentage. And the goal is to keep taking that up year-on-year.

Manish Jain: And last question from my side is what in your view is a sustainable return on capital employed for the overall business?

Anant Goenka: Difficult to give you an answer on that, maybe I can get back to you on that.

Moderator: Thank you. The next question is from the line of PVK Mohan from Principal Mutual Fund. Please go ahead.

PVK Mohan: I missed the earlier part, so if you could just repeat how much debt do you target repaying by the end of the year and what is your current long-term debt?

Anant Goenka: Over the last year and a half, we have paid off about 400 crores debt. Over the last quarter it went up by about 250 crores, as we shared. This is a tactical call. So that 250 crores we can bring down in a very short period of time. Currently, our internal accruals have been PBT of about 100 crores, an average over the last two quarters. That kind of performance broadly we expect margins and growth levels to be at similar levels, not very different. So over the next two quarters I would say, yes, we would be able to bring down debt to that extent at least…

PVK Mohan: 200 crores at least?

Anant Goenka: Broadly, yes.

PVK Mohan: And how much is your long-term debt currently?

Anant Goenka: 372 crores.

Subba Rao Amarthaluru: It is only the Halol plant. Rest of the long-term debt has been liquidated. This will get amortised over a period of the scheduled loan repayment period.

PVK Mohan: And you mentioned about the capex for Halol and do you see debt levels again significantly rising or do you think that if you think if the trajectory of profitability, I am not saying at the same level always but reasonably healthy level, do you see the debt rising by much lower levels from here? Is that a priority for the company in terms of trying to keep debt at much more manageable levels despite expansion?

Subba Rao Amarthaluru: Over a period of the next two years, we need to borrow for funding the capex of the Halol phase, which is to the tune of about say 450 crores. If you take two years, in the two years we will also have the internal cash accruals. We will have to decide how much of this internal cash accruals will be applied for the repayment in terms of existing debt in addition to the scheduled repayment and how much we have to use for the capex programme. So we have to balance between the two. So what we will primarily attempt is when the cash flows keep going up, so whether the debt serviceability is higher we will have to balance between the growth of the business as well as the debt management. We will keep bringing down the debt to the extent possible in addition to the scheduled debt repayment, but we have to fund the capex also as we go along to ensure long-term growth of the business.

PVK Mohan: One final question is on the margins. I know this has been a very great quarter. Just from a longer-term perspective, is there a level at which where the margins could stabilise or normalise? Do you think you are on a better trajectory from hereon?

Anant Goenka: I think our margins certainly are looking more attractive than they were in the past. So we are at solid levels at this point, 8% kind of PBT. I would say overall for the company we are generally at a much healthier level even if raw materials prices go up. Yes, margins can come down to a certain extent but I believe that the overall average PBT percentage is looking to be far more solid than we have seen maybe up to two years ago or a year and a half ago. I believe that the overall range has gone up, but yes, there is certainly a volatility risk that exists. But as we move more and more towards the Passenger segment we believe this volatility will come down because the Passenger segment is far more price elastic than the Truck segment. So we will be able to pass on the pricing much more easily than we were able to do about a year ago.

Moderator: Thank you. The next question is from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.

Vishal Saraf: A couple of questions from my side. First thing is when we look at the other operating income for the quarter the number looks slightly higher than the past trend, is there something specific or some one-time kind of benefits here?

Anant Goenka: No one-time benefits that are there.

Subba Rao Amarthaluru: In the whole other income except dividend from Sri Lanka which is to the tune of about Rs 8 crores there is no exceptional income, and this 8 crores is a recurring income in a whole year, maybe not in every quarter, but if you take the whole year it keeps recurring.

Vishal Saraf: I was referring to the other operating income which is say 17.5 crores for this quarter against 10 crores in June quarter and 11.8 crores in September. So maybe there is scrap sale or something like that, is it?

Subba Rao Amarthaluru: There are higher export benefits that have been realised. There is a scheme that if you export at a jurisdiction we get an incentive.

Vishal Saraf: So that per cent has gone up from the government side, is it or is it because of higher exports?

Subba Rao Amarthaluru: 11 crores is a recurring income, it is not one-off income.

Vishal Saraf: That is primarily export incentive, is it?

Subba Rao Amarthaluru: Yes, right.

Vishal Saraf: Just wanted to understand on the inventory side obviously, because the inventory number per se looks very high for the quarter end. Can you break up this between finished goods and raw materials? You are saying finished goods have also increased.

Anant Goenka: Yeah, about 65-70% of this would be finished goods inventory, and about 35-40% would be raw material inventory.

Vishal Saraf: It is much higher than the past trend, is it?

Anant Goenka: This is the increased breakup. So if inventory has gone up by about 200 crores largely that is the kind of breakup, about 150 crores or 130 crores are coming out of finished goods and about 60-70 crores coming out of raw materials inventory. And as I said, this is likely because we had a sensitive situation in our plant where we decided to increase our inventory temporarily. Now that is behind us. At least we know for the next 3-4 months where we can look at bringing this down again.

Vishal Saraf: So we were having some negotiation with workers and that has been finalised, is it?

Anant Goenka: Yes, we had two parts to negotiation; one part is over; the second part will come up around April time, so that is the other.

Vishal Saraf: And this question was asked earlier about the raw material prices for the quarter. Can you give some indicative directions that by what quantum rubber cost would have changed for say the second quarter against the first quarter?

Anant Goenka: Broadly between 1Q and 2Q raw material prices have remained the same on an overall raw material basket. Rubber prices have gone up a little bit but on an overall basis other raw materials have come down; synthetic rubber, for example, has come down a little bit, and as a result, net-net, the basket has remained flat on a quarter-on-quarter basis.

Vishal Saraf: You were mentioning that typically we are able to import say 30% of our raw materials, and we have imported much higher this quarter. So, is it that some part of rubber imports might attract duty now?

Anant Goenka: No, this really depends. So you can do duty paid imports, but you have something called 'Advance Licence' on future exports against which you can book duty-free today. So you can go up to as ahead as 24 months with respect to duty-free booking. And tomorrow if domestic raw materials come down you can compensate that by making sure you do higher raw materials domestic buying. So, this is a strategic call which the purchase team would be doing on a quarter-on-quarter or month-on-month basis.

Vishal Saraf: So we can postpone this or we can do higher exports and then compensate and not pay the duty?

Anant Goenka: Yes, either you do the higher exports or you take a call that 'yes,' going forward I will do more domestic buying when domestic prices are lower; so you can always balance that amount.

Vishal Saraf: Can you help us get some indicative direction what rate this inventory would have come through this imports say compared to domestic market or an absolute price if you can give?

Anant Goenka: If you were to do a comparison last quarter approximately international prices were prevailing at about Rs170/Kg on a duty paid basis. Duty free as a result would have been at about Rs150/Kg; this is for natural rubber. So that is the pricing that was prevailing. Now, what we bought at is really, I do not have the weighted average and I would not like to share that because it is confidential, but broadly this is the price at which it was prevailing.

Vishal Saraf: Landed cost will be higher than Rs150, right for any?

Anant Goenka: Yes, add your logistics cost, etc., but I am saying this is the ex-Cochin equivalent so that you are just doing apple-to-apple comparison with respect to Indian prices.

Vishal Saraf: If Indian price is Rs170, to this 150 you need to add logistics cost to arrive at Kochi prices or 150 is an effective?

Anant Goenka: No, you will have to add the same amount to both of them that is what I am saying. So, today from Cochin to Bombay, or Cochin to our plant, the logistic cost is Rs10; you will have to add Rs10 to both of them.

Vishal Saraf: So this 150 is absolutely comparable with Kochi at say 175?

Anant Goenka: Yes.

Moderator: The next question is from the line Natasha Lulla from Birla Sun Life. Please go ahead.

Hitesh Zaveri: This is Hitesh Zaveri from Birla Sun Life. My question, Anant, is about the Replacement market share in the passenger as well as UV, and then motorcycles. If you could give some colour of what would be the market share and then the replacement market is the competitive scenario and how can you improve or sustain market share?

Anant Goenka: On the passenger car side, our market share is at about 5-6% kind of level. On the UV side our market share has gone up by about 2-3% from about 9% levels to about 12%, and motorcycle market share on the replacement side is again a little about 20%.

Hitesh Zaveri: And in each of these categories how do you see the competition, I mean, some kind of advantage over the others because the market shares earned in the last couple of years, I am just wondering where can they level and then how long can they can sustain?

Anant Goenka: Currently, we are finding growth to be quite attractive; in all these segments our growth levels on a year-on-year basis are at about +20% levels; so some even are as high as 30-40% kind of growth. So, some are because of a low base, Halol has expanded and so that capacity is also coming on stream, but clearly we are finding growth to be very attractive at this point of time at CEAT levels. At an industry level, growth is a little muted; while Passenger growth is higher than Commercial Vehicles growth, but Passenger is also growing still at only 5% and 4% kind of level, whereas our growth has been very attractive. On the other hand, our base has also been low. So on the Passenger segment, for example, our market share is only 5-6% because of supply constraints and whatever we are producing we are able to sell. So, I believe our brand still has enough power to take our market shares up to a much more comfortable level and that is why we are looking at this investment. We are currently just not able to meet our demand needs that are there, and therefore we are looking at this expansion. So we do believe that there is a good possibility of good growth going forward in all these three segments that I am talking about.

Hitesh Zaveri: You mentioned in your comments that in the export market you have now begun to take some more initiatives to make it more broad-based and more stable and sustainable. Could you elaborate on what initiatives would you refer to make sure that the export revenues continue to sustain well?

Anant Goenka: So, on the export front, we are focusing on a few key regions. We are finding that the developing market like Southeast Asia, Brazil, East Africa, West Africa, and Middle East, some of these areas are very high potential growth areas, and these are the areas that really we are looking at growing. We are looking at setting up offices in some of these areas. Some we have already set up, some we would be setting up offices. We will be looking at having more feet on the street to really sell more tyres. We will be developing new tyres for these markets. So it is really a typical marketing strategy, but it is really now about execution and making sure that growth comes in the export market and we are seeing some positivity coming in 3Q. We do believe that exports should grow well going forward for the next few months at least.

Moderator: We shall take the next question sir from the line of Disha Shah from Anvil Stock Broking. Please go ahead.

Disha Shah: Sir, what is the capacity utilisation?

Anant Goenka: At about 90%.

Disha Shah: And what is our cost of debt?

Subba Rao Amarthaluru: Aggregate cost of funding would be around 11-ish, including the hedging cost of our short-term forex debt.

Disha Shah: When I check depreciation to our gross block, we provided 4% and like our peers provided at 8%. So are we going to increase our depreciation or this is the rate we keep it or am I getting anything wrong?

Subba Rao Amarthaluru: This is the rate applicable to the continuous process plant how it is categorised.

Disha Shah: In the case of our new expansion of 650 crores, how much would be PCR and UV rates, because I am just seeing that we have too much of demand for PCRs, that is why?

Anant Goenka: No, we are seeing good demand in both areas. Higher in UVR.

Disha Shah: And I just missed, you mentioned that our market share in Replacement PCR is about?

Anant Goenka: About 5-6%.

Disha Shah: And sir, since we have taken inventory in 2Q for 3Q, so can we assume the margins would be around the same levels as one and the rubber cost would be at the same levels for 3Q?

Anant Goenka: Broadly, similar levels. Raw material prices will go up marginally, but we do believe that we have taken a percentage price increase, we should expect slightly higher sales in this month in exports also, and replacement, because Q2 is a lower sale month.

Disha Shah: You mentioned in your opening remarks, replacement for PCR is degrowing, right, I mean it is flat, or marginally growing, but OEM is growing. Have we added new customers for our PCR?

Anant Goenka: Yes, we have increased our supplies to Maruti. We are looking at higher sales to Mahindra. So, yes, we are doing that. We are continuously adding new supplies. But, I think what I said was that the replacement market in the Passenger segment is growing at about 3-5% growth whereas our growth rates are far higher, both in the Replacement as well as in the OEM segment.

Moderator: We are going to take up a follow-up question from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.

Vishal Saraf: Raw materials cost side, you mentioned our costs are likely to go up especially on rubber. So is it that because we had imported and this inventory is at higher cost; how is it going up? Can you…?

Anant Goenka: Largely, carbon black prices have gone up because of rupee depreciation, and therefore their inputs have gone up and so that gets passed on. Carbon black is a key raw material. Other raw material prices also are inching up, but I would say broadly it is a raw material price increase of about may be 1-2%. But largely because of other raw materials, rubber should remain flat.

Vishal Saraf: You were mentioning that imported rubber prices in the last quarter were around 150 and domestic was say 175- 180. So there was a 20% cost savings just by import, is it? Or are there some duty elements or other elements involved?

Anant Goenka: No, this is duty-free rubber. That was the price difference between duty-free rubber and domestic rubber. Domestic …

Vishal Saraf: Anyway we get duty-free rubber. So, for us, there is a straight 20% savings, is it?

Anant Goenka: Yes, 20% savings for that 30% or for whatever import licence that you have. We do about 20% exports. So yes, that exported equivalent 20% material you can buy at that much cheaper. But the balance you should plan, that will be duty paid, right, unless you can do some advance licence utilisation and at a future date you reverse that by doing higher domestic sale.

Vishal Saraf: Now that we have been seeing in the last one month rubber price coming down significantly in the domestic market. So overall both the things have impacted, and in the sense, is there any inventory hit that we could have taken or we have taken last quarter because we would have booked at some XYZ rates and then rubber prices have been coming off?

Anant Goenka: Not really, because what you can do is always do duty-free imports and then you can do higher domestic; so one can very strategically take these calls. Domestic prices might have come down, but I would say in August there was no rubber available. You go to Kerala, I do not have industry numbers, but I would say the entire industry would have been in this situation.

Vishal Saraf: Just one more small point, the press release mentions about some BIFR for Rado Tyres and we making this as a subsidiary. Can you help understand what this is?

Anant Goenka: Rado Tyres is an outsourcing unit, of which CEAT has about 60% shareholding in, where we have been buying tyres about 10 years or so. So, that was under BIFR. The scheme has been approved and it is out of BIFR, and therefore formally it becomes a subsidiary of CEAT. Since the scheme has been approved and it is out BIFR, it would be becoming a subsidiary of CEAT. It will really not affect numbers, because we consume the entire amount. So, there is no additional turnover or profits that come in as a result.

Vishal Saraf: This is one of the two subsidiaries that we have been using to reduce our costs and get materials, is it?

Anant Goenka: No, no, not really. This has always been there. This is not anything new. It is just that it has been out of BIFR we have been buying tyres. I presume you might be talking about Ace Tyre, where we buy motorcycle tyres from?

Vishal Saraf: Right, you have been mentioning about outsourcing of motorcycle tyres. So this is the same entity, is it?

Anant Goenka: No.

Vishal Saraf: This was even earlier owned 60% by us, is it?

Anant Goenka: Largely, yes.

Vishal Saraf: And who owns the balance?

Subba Rao Amarthaluru: So, RPG Group Company owns close to 86%; it is only 14% which their associates are holding.

Vishal Saraf: So 86 and 60 differential between these two would be owned by other RPG Group companies?

Subba Rao Amarthaluru: Other RPG group companies, right.

Vishal Saraf: And it is not likely to have any impact in terms of financials or anything for us?

Anant Goenka: No, no. Nothing changes.

Subba Rao Amarthaluru: It is like running your own factory, and so the entire production we are taking.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Ashvin Shetty for closing comments.

Ashvin Shetty: Thank you. On behalf of Ambit Capital, I thank the management of CEAT for giving us this opportunity to host the call. I also thank all the participants for logging in the call. Thanks and have a nice day.

Anant Goenka: Thank you, Ashvin.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.