



“CEAT Limited
Q4 FY2019 Earnings Conference Call”

May 08, 2019



ANALYST: MR. NISHANT VASS – ICICI SECURITIES LIMITED

MANAGEMENT: MR. ANANT GOENKA - MANAGING DIRECTOR –
CEAT LIMITED
MR. KUMAR SUBBIAH - CHIEF FINANCIAL OFFICER –
CEAT LIMITED



*CEAT Limited
May 08, 2019*

Moderator: Ladies and gentlemen good day and welcome to the CEAT Limited Q4 FY2019 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 would now like to hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you and over to you, Sir!

Nishant Vass: Thanks Janice. Good day everyone and thanks for joining us today for the call. From the management side we are represented by Mr. Anant Goenka, Managing Director, and Mr. Kumar Subbiah, Chief Financial Officer. Now I would like to hand over the call to the management for their initial remarks. Over to you Sir!

Anant Goenka: Thank you Nishant. Good evening and a very warm welcome to CEAT’s Q4 FY2019 earnings call. This is Anant, Managing Director of CEAT and I have our CFO, Kumar Subbiah here with me. I will share with you now our performance for the quarter and year ended March 31, 2019 followed by some financial commentary by Kumar post which we will be happy to take questions.

For the quarter CEAT’s standalone revenue from operations stood at Rs.1717 Crores a growth of 3.4% year-on-year. The standalone EBITDA margin was at 9.7% with 166 Crores PAT and PAT was at 4.5% at 78 Crores. The year-on-year revenue growth was on account of 6% improvement in realization in terms of deals, export grew in this quarter; however, we saw a challenging market in the domestic segment with both OEM and replacement showing volume decline.

For exports growth was primarily driven by two wheelers and commercial vehicles. On a sequential basis CEAT’s standalone revenue grew by 1.7% this was largely on account of volume growth. On the raw material front our prices remain flattish quarter-on-quarter and went up by about 8% on a year-on-year basis and on the pricing front on an average we took price cuts of about 1% across products during Q4.

For the year CEAT’s revenues from operations grew by about 10% compared to last year and stood at 6831 Crores. On the volume front at an overall level our growth was at 7% for the year. We witnessed growth across channels with OEMs leading the pack; growth in OEM was largely on track of impressive growth in the commercial vehicle and in the two wheeler segment while in replacement and exports we saw modest growth across the board.

On the raw material front, our prices for the year went up by about 2% A few highlights for the year, I am happy to share that CEAT crossed a billion dollars in revenue term for the first time this year quite a landmark achievement for us. We also commenced commercial production of our truck radial plant in Halol, which is our Phase III at a peak capacity of about 80000 tyres per month so we started that towards the latter half of January in this year.

With these updates for the quarter I now hand over the call to our CFO, Kumar Subbiah.

Kumar Subbiah:

Thank you Anant. Ladies and gentlemen, greeting for the day. I will present before you the key financial numbers. Our revenue for Q4 at consolidated level grew by about 4.4% year-on-year and 1.8% quarter-on-quarter to reach a number of 1760 Crores. The sequential revenue growth was largely on account of increase in volumes. Our gross margin for the quarter stood at 39.3% at a consolidated level though on the face of it, it would like a contraction of about 220 basis points, about 52 basis points was on account of lower realization and balance was on account of lower finished goods inventory.

Our consolidated EBITDA for Q4 was 9.4% an expansion of about 80 basis points sequentially and an expansion was largely on account of lower cost incurred during the quarter. Our consolidated net profit for the quarter stood at 64 Crores, a sequential increase of about 23%.

For the year CEAT's consolidated revenue from operations grew by 11.2% compared to last year and stood at 6985 Crores with an EBITDA margin of about 9.5% and PAT of 251 Crores.

I would now like to give you an update on our capital expenditure for the year. During the financial year 2018-2019 our total project capex was 1105 Crores and out of which 396 Crores was incurred during Q4 and I would also like to give you a forecast for the next year. We expect to incur a capex of about 1300 to 1400 Crores for CEAT standalone undertaking and another 200 Crores for our CEAT specialty business in the name of CSTL.

Our debt equity moved up during the year to about 0.54 compared to about 0.47 in the previous quarter and the increase in our debt during the quarter was approximately about 200 Crores predominantly to fund our capital expenditure programs.

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

Moderator:

Thank you very much. Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale:

Thanks for taking my question. Sir my first question was regarding your volume growth. You mentioned that you would have had a marginal decline in volume growth for the quarter. Just wanted to get a sense, OEM has been under pressure how has been your replacement performance across different segments and just wanted to get a sense why would the industry have seen such a slow growth in the replacement segment, is it just transitional and how do you see that going forward in FY2020?

Anant Goenka:

Yes, I think the replacement channel has also been seeing some challenges really. Again post November period much like the auto sector has seen some challenges that has also come into the replacement segment I would say from November onwards. So I say this has been there nearly across categories. Truck and bus was of course growing at a much faster pace that has come

down to single digit kind of growth, motorcycle, passenger car has also been seeing some challenges. So overall across the board there has been a slowdown on the replacement side. Now why it is there some amount because of credit issues that are facing the market, there is a cash crunch that we hear of as a result of that. There are some amount of uncertainty that have come in because of election time also coming in and then there was no pickup during the seasonal period of Diwali and Marriage season in December, January kind of time period. So, the market itself is looking challenging whether you look at overall macro numbers, job creation, goods movement, generally I think the market is relatively weak at this point. Now when will it pick up also is a tough one at least we have to wait for, one is the uncertainty of election to get over. Monsoon also we are hearing kind of mix things I think IMD is giving one forecast and the Skymet is giving a normal monsoon forecast or vice versa, so we are hearing two different things on the monsoon. So, if monsoon was fine there can be some prebuying, etc., that can happen on vehicles. OEM should pickup and then hopefully there will be some better response from the latter half of this year.

Jay Kale: And second on your gross margin side, even if you adjust for your inventory movement in Q3, we had heard that Q3 to Q4 we should get some raw material benefit, but that maybe has not flown through, what were the factors over there and also the realization has moved up substantially, I would have assume that with OEM growth been stronger, you can just throw some light on the realization part of 6% growth also and what kind of product mix would have played onto that?

Kumar Subbiah: See approximately at the finished goods level raw material cost maybe remain flat Q4 versus Q3 and our realization was down by about a rupee per kg say 0.5% or so, so that is impact on gross margin and the mix overall remain more or less same versus last quarter both category mix as well as channel mix. So therefore, balance out of 2.2%, 1.7% is only on account of lower finished goods inventory by end of March versus the previous quarter.

Jay Kale: And how do you see the raw material outlook going forward say how has 1Q started off for you versus Q4?

Kumar Subbiah: Raw material prices we expect for Q1 to be at Q4 level, but we are seeing some increase in the raw material prices, crude has moved up to \$70 to \$75 bracket against \$60 to \$65 bracket that we saw three months back and international natural rubber prices have also moved up. So, we do not expect overall impact to be there in the current quarter because we are already in the second month of the quarter so it's largely covered; however, if the crude oil prices remain at the current level and natural rubber international prices remain at the current level there could be some impact in the coming quarter, but not in the current quarter.

Jay Kale: And how do you see the pricing environment going in FY2020 while OEM growth is of course dependent on how the situation is, but on the replacement side do you expect the pricing environment will we expect this cost increase to be passed on or you think the demand will remain weak for the next fiscal on the replacement side as well?

Anant Goenka: I think tough to say. I think, I do not see demand picking up, there are not many signs at this point of time what we saw for demand. So I would say just wait and watch, I am not hearing very positive things in general about things in the near term. So, I still say it is a wait and watch, I also do not see too much pricing action happening at this point. So, I think there can be some stress on margins.

Jay Kale: Thanks and all the best.

Moderator: Thank you. We take the next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir despite OEM being sluggish in the second half we have seen very strong growth in OEM sales for us, while replacement probably has grown by only 2%, 3% in terms of volumes for the full year. So what is leading to this kind of slowdown for us in replacement market and if you can tell which segment is actually doing well for us in that because I thought the truck has done a little better this year?

Anant Goenka: Sorry, could you repeat your question, you are saying which sectors in the OEM segment are doing well?

Ashutosh Tiwari: No, I am saying that OEM overall if you look at the second half in FY2019 was quite weak and despite that we have seen very strong growth for us in terms of sales Y-o-Y, while if you look at the replacement market sales for us it has only grown by say around 6%, 7% Y-o-Y in FY2019 and probably in volume maybe 2%, 3% only, so what is leading to the slowdown in replacement sales for us?

Anant Goenka: Like as I said that in the previous question as well, that in the first half of the year replacement was quite positive and then from November onwards things have been challenging even on the replacement side. So even the OEM has slowed down, we are finding the replacement segment also relatively slow overall. So, I said truck was growing at 20% earlier at a market level and this has come down to single digit even on the replacement cycle, so to that extent market is looking quite weak at this point.

Ashutosh Tiwari: So going into FY2020 with the new plant coming up on TBR side, will it be true to say that our OEM share can further increase our focus will be 20% further OEM share?

Anant Goenka: Yes our goal will be to increase share across the board. So our market shares in the truck segment are weak particularly truck radial. So with that capacity coming in, it will be a lot about gaining market share because the market itself is not growing very fast. So we will gain towards that as our capacity ramps up.

Ashutosh Tiwari: Okay and as you only highlighted that there is an increase in the international natural rubber prices over last four, five months while domestic prices have remained stable so what we are

seeing is that maybe around say almost 15%, 20% increase in the international rubber prices in December, but domestic prices have not moved so what is causing this disparity between international and domestic prices?

Kumar Subbiah: The weakness in the market is because people bought less rubber in the last three, four months or so because in general many of them had higher level of inventory and they bought rubber from the local market and second this is supposedly off season between March and June and hence natural rubber production is very less, the tapping actually starts only from the later part of June. So not much of natural rubber inventory is also there at the system for them to sell and most of the rubber buyers would have bought much little ahead of March because the availability will normally come down. So at some point in time you would see some kind of parity between international and local prices.

Ashutosh Tiwari: Lastly if I look at subsidiary EBITDA in the fourth quarter it was some loss over there versus a marginal profit in the previous quarter, so what has happened over there?

Anant Goenka: Could you repeat, sorry, I did not hear.

Ashutosh Tiwari: If I look at subsidiary EBITDA and all my standalone EBITDA for fourth quarter I see a loss over there of around say 4 Crores versus profits earlier at EBITDA level in third quarter?

Anant Goenka: Yes so our specialty tyre facility is still undergoing expansion at this point of time. So we are incurring cost of full manpower or large amount of manpower and expenses relating to that. This is ramping up well so we are seeing good growth of improvement and I think that is what is right now causing losses at this point. So I think it is going to be another couple of quarters after which things will get better.

Ashutosh Tiwari: And what is the current utilization level over there?

Anant Goenka: Today it is about 50%.

Ashutosh Tiwari: Okay sir thanks a lot.

Moderator: Thank you. Next question is from the line of Basudev Banerjee from Ambit Capital. Please go ahead.

Basudev Banerjee: Yes, thanks, few questions. Kumar sir in the initial part of the call you said around 52 basis points of gross margin decline was on the back of price cuts, so can you highlight how much was the price cut blended sequentially?

Kumar Subbiah: Yes, I think approximately 1% in Q4.

Basudev Banerjee: In the replacement?

- Anant Goenka:** In replacement, that is right.
- Basudeb Banerjee:** And as you were highlighting the fact that demand situation is not that great despite rise in raw mat price do you see further risk of price cut requirement in this environment?
- Anant Goenka:** I do not think so because I think going forward raw material is also inching up and that is visible to us. So I think from that perspective I do not see price cut happening in a broad sense that I can give you.
- Basudeb Banerjee:** Sure and sir thirdly in this environment where the gross margin is adverse, volume growth blended is almost nil the whole growth was led by the pricing increase year-on-year and with the volume outlook also being bad. Now with as you mentioned Halol TBR capacity also coming up, which should also put a pressure on your fixed cost sooner than later, so are you having any specific strategy to tackle other expenses, fixed cost marketing expenses to have a tab on margin decline or the operating leverage can take a toll on margin severely?
- Anant Goenka:** I think first focus will be to make sure we are able to sell our entire truck radial capacity as and when the ramp up happens. We feel pretty confident about that because our market share in the truck radial category are low. If you look at our market share you say in the truck bias we are somewhere around 13% or so market share whereas in the truck radial we are somewhere around 3%, 4%. So we have enough opportunity, we have enough channel relationship that are there and brand equity to go up there. Till now we have been restrained in terms of capacity, so with this capacity it was long overdue, I think last year around the same time we spoke about stock outs, etc. So at least to a certain extent we feel we can utilize this capacity for the first few months easily and then of course we always keep working on how do we manage our cost more effectively. So that is something which is very much in our mind in light of the slowing down environment.
- Basudeb Banerjee:** Sure and last question in the two wheeler segment how much is the revenue mix of OEM replacement for fiscal 2019 and any changes to replacement market share two wheeler?
- Anant Goenka:** I think the mix is relatively similar, I think it is somewhere around 35:65 kind of mix, but let me just get back to you on the exact data, I do not have that data here exactly with me, but approximately it has been 35:65 and growth of both have been relatively similar. So I am assuming that it should be at a similar level.
- Basudeb Banerjee:** 35:65 OEM replacement?
- Anant Goenka:** Approximately that is right.
- Basudeb Banerjee:** And replacement market share movement plus or minus?

- Anant Goenka:** The replacement market share has been positive only, not a major change, but largely positive, maybe a 0.5% here and there.
- Basudeb Banerjee:** Almost still broadly it will be at what level?
- Anant Goenka:** Our market share in the two wheeler space will be somewhere around 28% to 30% range.
- Basudeb Banerjee:** Okay, thanks and that is all from my side.
- Moderator:** Thank you. Next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** My question is on the capex front. Just wanted to get some more detail as to how much capex we have already spent on our TBR and your new PCR capacity and how much of the capex you have capitalized with the commissioning of the new plant because I am assuming the ramp up will happen over a period of time. So the commissioning of the plant will not have happened completely, and secondly you would be capitalizing some interest expenses right because if I see your debt is around 1400, 1500 Crores while interest expenses is too low, so just wanted to understand these two numbers?
- Kumar Subbiah:** Okay I will broadly share the detail. We do not provide the details at each project, in the beginning mentioned about 1105 Crores was our total capex on these three projects during the year, in addition to that about close to about 190 Crores we had spent it in the earlier year. So till date we spent about 1300 Crores on all three projects put together. Halol III being the first project that we have commissioned in the month of February. We had earmarked about 1000 Crores for Halol and half of the amount we have spent at the time of commissioning say by end of March. So most quarter if you would have calculated towards end of Q4 and since all the other projects are work in progress and whenever we incur interest cost and if the project has not been commissioned and if the debt is attributable to those projects, those get capitalized and 1400 Crores of total debt that you see on a consolidated basis the year end number and year beginning we were 620 Crores less say about 780 Crores or so. So the interest cost has to be worked out based on the average debt and not really on year ended. So small portion of the interest cost we would have capitalized in the range of about 25 to 30 Crores during the year.
- Nishit Jalan:** Sir just a follow up, 1300 Crores you have spent on capacity expansion and 500 Crores is capitalized for TBR at the end of this quarter. So the remaining 800 Crores generally you are funding your capex through debt, so is it fair that 700, 800 Crores equivalent interest expense on those debt will be capitalized or no?
- Kumar Subbiah:** Yes, you are right, logically you are right, I am not able to confirm the number, but logically you are right. To the extent of capex not funded through internal accruals, but through borrowings that interest cost till such time it is work in progress if it gets capitalized.

Nishit Jalan: And Sir my second question is on CSTL. Can you give some more operational highlight as to how many SKUs we have industrialized and do you think that this ramp up, whichever has happened 50% on 40 TPD capacity it is below what your initial expectations were and how are you looking at capacity ramp up in the next one, one-and-a-half years?

Anant Goenka: Yes, so, in terms of capacity ramp up, the ramp up has been slower than what we expected, but I think this is more of a learning because the nature of the product is that it is a very long life product the life of a farm tyre is 6 to 7 years and therefore the time for replacement experience of tyre does take time. The second is that it is a seasonal product, so either you sell in that specific season when people can experience it or you miss the season altogether, so there are two seasons in the year when you can look at selling, what happened to us was we got our consent to operate got delayed by about five months time, which was suppose to come in July 2017 we got in around October 2017 that cause some amount of delay from our plant and so our plant was just lying kind of ready, but not ready to sell tyres from there. So that was one element and the second was that these are long lead time. The positive is that from an internal input perspective our products are of very good quality, the feedback from the customers are very positive and the trend is looking very good. So if you look at from Q3 to Q4 and a quarter-on-quarter basis itself we would have seen a strong growth of something like 25%, 30% at least and if this continues we feel that this trend should continue. So with that I think we will be in a much better phase going forward. So we are not worried about it, but say from our original plants we would be about nine months late from in terms of we would have been happier to be expected to be where we are today about seven, eight months ago at least.

Nishit Jalan: And sir you said 25% to 30% sequential growth in topline from this part is it because when I am doing consolidated minus standalone topline that should broadly reflect the CSTL right and I am not able to see that kind of a number, maybe I will take it offline from Pulkit in that sense?

Kumar Subbiah: Right, the consolidated includes our other subsidiaries of Bangladesh, Sri Lanka, etc., so it includes that.

Nishit Jalan: But it will be equity accounting rather than topline right?

Kumar Subbiah: Bangladesh is topline accounting. Also what could happen is that for this business, there are two parts of specialty business, one is the cross-ply business and one is radial business. Cross-ply is largely our capacities are fixed those cannot be more than 5%, 7%, 8% because that capacity we have not added any capacity, radial is where we have added substantial capacity, so when I am talking about growth I am talking primarily about radial capacity from our Ambernath Plant, which is largely on a smaller base. So today I think we are doing about say 50 tonnes per day of production for our buyers capacities of 40% to 50% kind of range whereas our buyers capacity, total capacity itself is about 33 tonnes per day, so out of 33 we are at 50% utilization 15, so when I am talking about growth, but I am talking about this 33 tonnes per day, which is more important to us because that is radial that is where we put in the capex. The balance is fully utilized and therefore you are not going to see much change.

- Nishit Jalan:** Okay thank you Sir that is it.
- Moderator:** Thank you. Next question is from the line of Ronak Sarda from Systematix Shares. Please go ahead.
- Ronak Sarda:** One was on a quarter-on-quarter basis can you help us understand the dip in gross margin and there is a sharp cut in your employee and other expenses, so how stable is that can we expect similar range in FY2020 if things remain as weak as you are predicting?
- Kumar Subbiah:** No, see the drop in margins we explain already. Theoretically if you look at gross margin because raw material cost consumed after adjusting for finished goods difference becomes a material cost, but when you arrive at the finished goods difference it has nonmaterial cost component also. So when finished goods inventory moves up it has a favorable impact on gross margin and the reverse is there. So which is why I said out of 220 bps that you see as a drop in gross margin because the last quarter our finished goods inventory has gone up significantly so therefore that led to theoretically higher gross margin. So if you adjust that the underlying gross margin reduction is about 52 basis points and which is predominantly on account of similar raw material cost level, the 52 basis points is on account of lower realization per kg at a company level overall. So that was a reason as to why that is the way the explanation for gross margin drop. With respect to employee cost, predominantly it is on account of at the end of the year we do look at gratuity provision, leave encashment provisions based on actuarial valuation. So it was little lower by end of the year that benefit flooding. Second part of that was also slightly lower level of activities in our factory in terms of volume reduction during Q4 vis-à-vis Q3 so that also has contributed to lower employee cost. So these are the two reasons. If your question is that whether it is sustainable, etc., which is this 118 Crores for Q4 versus 130 Crores I think it depends on the level of activity, if you remove the difference 50% could be on account of gratuity and leave encashment actuarial valuation that is not a sustainable benefit it may not flow in the subsequent quarter. Balance could be sustainable.
- Ronak Sarda:** And similarly other expenses largely because of cut on your promotional side or marketing side or there is some one off here and I am saying quarter-on-quarter basis so like our Q3 was, Q3 a seasonally very high quarter in that sense?
- Kumar Subbiah:** See it is a combination of three, four, promotional marketing cost reduction was not much it was about 5.4 Crores or so over the last quarter. Outsourcing conversion cost is also part of others in our case. So therefore when the production activity was little lower in Q4, so we ended up paying little lower conversion cost. As I mentioned when explained about lower the employee cost, when you have a lower level of activities in our factories your power and fuel cost would also be little lower, your outward freight would also be little lower and depending on the level of activity. It is predominantly those but specific question with respect to our marketing cost it was about 5.5 Crores lower than the previous quarter.

Ronak Sarda: And sir second question for Anant, including you the other players TBR capacity coming up. So can you just highlight was the radialization rate currently at OE level and at replacement level and with this new capacity coming up over the next 12 months how do you see utilization level at your TBB capacity then and would there be some impact because of lower utilization at TBB capacity or you do not foresee that kind of risk?

Kumar Subbiah: Radialization in the industry is at about 50% at our replacement segment and OEM would be around 80% or so. We see truck buyers showing negative growth I say continuously going forward in a way and I think radialization should go up to about 65%, 70% in the industry and stabilized at extent irrespective of whether our capacity comes in or not truck buyers business going forward I say last time of course a little bit of an aberration when the commercial showed very strong growth, but clearly longer term truck buyers will show I say maybe about a -5% growth at least every year. I do not know if I missed the question that you may have asked.

Ronak Sarda: No that is helpful. What I have understood was assuming TBR is much more profitable than TBB today. So product is improving towards TBR, but there is a negative impact of utilization levels going down at TBB as well. So net-net is it still profitable or how do you ensure that profitable with TBR increasing?

Kumar Subbiah: No, I do not, I think it is difficult to say that, if you subtract the lots of profit of truck buyers and the gain in profit of truck radial it is profitable I think it is part of the industry move that is happening there is nothing that one had to move with the times to that extent and the negative growth of truck buyers I do not think can be compensated by the positive increase profit in truck radial I think it is just part of industry inefficiency, which we have to live with till this radialization time period happen.

Ronak Sarda: Okay.

Moderator: Thank you. Next question is from the line of Siddharth Bera from Nomura. Please go ahead.

Siddharth Bera: Sir my first question is on the volume. So you have highlighted that this quarter also you see initial trends as weak, but any colour can you give us for the whole year what is the volume outlook we are expecting for the whole year for CEAT?

Anant Goenka: No we do not give generally guidance I think we have fair amount. I can broadly tell you that the market is weak. So I expect single digit growth at a market level. For us we have a lot of capacity coming in, so we are aiming to grab some market share with a large capacity coming in particularly on truck side and then towards the latter half of the year on the passenger car side. Car side confidence is also high because we have a lot of OEM orders that come in to place. So passenger car utilization will be at full capacity for the first at least say six months after the capacity comes in, so overall we expect clearly has to grow higher than industry now what level will it be, what level will market growth be difficult to give a number.

Siddhartha Bera: Can you also help us understand how will the ramp up happen for both Halol and the passenger car plant?

Anant Goenka: Yes, so Halol is about 80000 tyres per month capacity in truck radial. We expect to reach full ramp up in about a year-and-a-half time. Ramp up will be a little bit higher in the beginning so I would not have the number of hand, but say if you look at about 5000 to 10000 tyres per month towards the latter half of that time period of course to get the final improvement increase in capacity takes a little longer. So somewhere between 5000 to 8000 tyres per month initially and then going down to 4000, 5000 tyres per month grew on truck radial side. On the passenger car side we are looking at a total increase of about 30000 tyres per day capacity increase, but this will be spread over quite a period of time. So this will be spread over a period of nearly say two-and-a-half, three years time from once we start commercial production of two years time approximately. So that we will get the machinery and ramp up along with based on how we see the market growing. We have set up the basic infrastructure for a 30000 tyre per day plant, but the balance infrastructure, the downstream machinery, etc., will come based on certain triggers based on how demand is, but here we expect the ramp up to be a little bit faster and utilization to be very high initially at least for the first six to eight months we expect full utilization of our passenger car facility.

Siddhartha Bera: So this will start coming from second quarter or it would effect from third quarter onwards for this?

Anant Goenka: Yes.

Siddhartha Bera: Okay, and the two wheeler expansion is also happened this year or it is pushed to next year?

Anant Goenka: No, two wheeler expansion is also happening this year, it should be ready in about a couple of two to three months time. Here we will have initial challenge of utilization, here we need to take up our volumes with some OEMs, etc. and this is an area where the market has grown higher than we have expected. So we can expect some utilization, but I think here there will be a challenge initially itself, but it is a high margin product it is important for us so we are happy to have that additional capacity if growth picks up at any point of time.

Siddhartha Bera: And lastly sir in terms of the capex we have highlighted at close to 13 to 14 billion in FY2020, but we have historically seen that the number actually what we do is lower compared to what we initially estimate so given the demand outlook remaining weak and there we have the decline of this estimate what we are expecting for this year?

Anant Goenka: I think see truck radial largely we spent what had to be spent and now therefore it is only the final downstream equipment so that will come because it is not very high cost. I think I do not see much change. So we have already I think revised it little bit downwards today itself I do not see too much change happening going forward, this is a fair realistic assumption we will keep you updated every quarter if there are changes.

- Siddhartha Bera:** Okay sir, thanks a lot.
- Moderator:** Thank you. Next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** My question pertains to the capex, which you mentioned continue on the previous question. Would it mean that given the current slowdown our downstream investment will be much more back-ended than what we would have thought say two, three quarters back?
- Anant Goenka:** No I think it is see one is truck radial I think both these areas I think we have planned in the passenger car side, see we are adding a lot today we are doing about 1800 tyres or so per day in passenger car 15 to 20 range say, this we are adding about 30000. So here we have enough flexibility to make sure the downstream is spread and that is what we have planned with our supplier so that is something we will take it as it goes. On truck radial I think there is less opportunity just because we feel that we can utilize the capacity it is not that much more in terms of our current base. So a truck radial will be utilized slightly to be spread going forward.
- Jinesh Gandhi:** Okay. So secondly with respect to the segmental growth, so can you dictate for fourth quarter and for FY2019 how was the growth in OEM replacement and exports?
- Anant Goenka:** I think as I shared with you we saw better growth from the export side, domestics has been relatively weak so on a year-on-year basis we were at kind of just about flattish maybe marginally negative volume growth on the domestic side and export was positive.
- Jinesh Gandhi:** And on OEM replacement?
- Anant Goenka:** Right, the OEM replacement was similar I say something like I do not remember -1%, -2% in terms of volume growth.
- Jinesh Gandhi:** No problem, I will take it offline thanks.
- Moderator:** Thank you. Next question is from the line of Vaikam Kumar from JM Financial. Please go ahead.
- Vaikam Kumar:** Thank you for the opportunity. I missed the volume growth number, volume and realization growth if you can provide for Y--o-Y and Q-o-Q please?
- Anant Goenka:** For the year we saw about 7% volume growth so that is FY2019 over FY2018 and on a year-on-year basis for Q4 we were at about 3% to 4% kind of decline in volume.
- Vaikam Kumar:** Okay, so for the quarter 3% to 4% realization growth on value terms right?
- Anant Goenka:** Yes.

- Vaikam Kumar:** Okay got it, thank you.
- Moderator:** Thank you. We take the next question from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you very much for the opportunity. Just two questions from my side, one is the CSTL what is the current capacity that we are working on TPD basis and what is your expansion plan?
- Anant Goenka:** Yes, the CSTL is currently about a 33 tonne per day plant that we set up they are currently operating at around 15 tonnes per day approximately, so that is 40% to 50% capacity utilization. Going forward we hope to utilize this capacity fully over the course of this year and we will look at further expansion of about couple of 100 Crores investment, so over time we will expand in phases starting off with about 20 to 30 tonnes per day and then so on so forth. Till eventually we reach a capacity of I would say about 100 to 120 tonnes per day in current avatar. Over time it is the land, etc. we will allow it to grow to even 150 tonnes per day.
- Bharat Gianani:** Second question is on the truck and bus radial capacity that you alluded to, so in terms of TPD what would be that number truck radial capacity?
- Anant Goenka:** 80000 tyres equates to about 200 tonnes per day.
- Bharat Gianani:** 200 TPD and that will be ramped up over the next two years right?
- Anant Goenka:** Yes year-and-a half.
- Bharat Gianani:** And just final question from my side what is the overall capacity in TPD terms currently?
- Anant Goenka:** Overall capacity of the company?
- Bharat Gianani:** Yes.
- Anant Goenka:** About 1200 tonnes.
- Bharat Gianani:** That is your consolidated capacity right?
- Anant Goenka:** That is right including outsource, including everything.
- Bharat Gianani:** Okay, so thanks a lot Sir and all the best.
- Moderator:** Thank you. Next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Just continuing with that, so your earlier TBR capacity was about 80 tonnes per day right so this takes you to 280 now?

- Anant Goenka:** That is right. It was earlier 80 to 90 tonnes per day, it was 80 in Phase I then we added about 10 tonne in Phase II and then another 200 in Phase III.
- Sonal Gupta:** So now we will be 290?
- Anant Goenka:** 290.
- Sonal Gupta:** And just on the PCR side what would be it in PPD terms how is that?
- Anant Goenka:** So passenger car in tonnes per day we were at about 70 tonnes per day in Phase I we added 110 in Phase II and now another 240 tonnes per day in Phase III.
- Sonal Gupta:** So this 30000 you are talking about is 240 tonnes per day?
- Anant Goenka:** That is right.
- Sonal Gupta:** This will come over a period of time like you are saying over the next two, two-and-a-half years?
- Anant Goenka:** We expect to have commercial production from Q3 of this year and it will ramp up in over a period of two, two-and-a-half years from there.
- Sonal Gupta:** Coming back to the tyre absolute number you are saying 18000 tyres per day on PCR?
- Anant Goenka:** Yes that is right.
- Sonal Gupta:** That is 180 TPD you are saying?
- Anant Goenka:** That is right.
- Sonal Gupta:** Again on the PCR side like you mentioned your initial utilization would be quite higher is that is because of the OE contract?
- Anant Goenka:** Yes, that is right.
- Sonal Gupta:** But on the TBR side do we have anything on the OE side?
- Anant Goenka:** Yes, so we have relationship there so in the PCR you have a lot more new product launches that happened lot more activity happening, in truck radial it is much more of a stable environment these are products that we are already approved in and so there is not so much of new product launch that you see happening in the commercial vehicle segment, so here it is less about new product approval that apply it more about taking up your share of business of whatever you are supplying there so that commitment or that is something, which depends on a competitive it is more of a planning that is done in the beginning of the year or on a quarterly basis, etc., whereas when you are talking about a new product launch for example we were there with the Hyundai

Venue you know that you have to commit for certain quantity, you know that the product is launching you have to sell so much of a Maruti very large volumes. So it is really depends on, so we know our new launches that are coming in whereas truck radial it is more consistent depends on how the market is moving depends on demand say for Tata, Ashok Leyland whatever they say we will have to look at supplying them and that is again a negotiation or a discussion based on increasing market share, etc.

Sonal Gupta: Right, but just on the TBR side how much would be OE right now it would be very small right?

Anant Goenka: I would say about close to 20%, 25% OEM.

Sonal Gupta: And just lastly on the overall environment like clearly the environment has not been great we have seen margin pressure for all players but still we are seeing like you taking some price cuts so should we read the environment we are really speaking that despite the margin pressure you are seeing price cuts in the industry any thoughts on that?

Anant Goenka: No it is a challenging environment right now I think it was quite unanticipated at least say six months ago, so in this situation very difficult to say it is not sounding it does not feel very positive at this point, which raw material being visible again going up in Q2, etc., I doubt there will be a further price cuts is what I would be surprise is that were to happen.

Sonal Gupta: Are we saying any new entrants like Maxxis has come in or something and is that also creating some pressure in the market or if this is just overall all players are just trying to fight for market share?

Anant Goenka: There has been relatively higher competition on the passenger car side that is one area where there have been little bit higher share of price cuts. On two wheeler side Maxxis is clearly one entrant that has come in and adding to some pressures as well and not sure about I do not think on the two wheeler side there is pricing action as a result of new players coming in, but clearly they have added whatever 4 lakh, 5 lakh tyres to the capacity in the industry.

Sonal Gupta: I am done. Thank you.

Moderator: Thank you. Next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Firstly sorry to go back to the replacement market weakness that you mentioned, the regions like liquidity, etc. that you said is it that this is affecting the dealers more than the end customer and hence there is some lack of maybe enough SKUs in the market or something like that because is how to imagine that two wheeler customer wanting to replace his tyres delays it by more than like three months or six months, so could you give some sense on exactly on two wheeler replacement why is there so much of a weakness?

- Anant Goenka:** Two wheeler if you look prices have gone up, there are various changes had came into effect say this year itself, which have increased price of two wheeler that is one and the CBS systems, etc., become compulsory also there was a increase in ensuring price.
- Mukesh Saraf:** No sorry so I was looking at the aftermarket only, I am actually questioning only on the aftermarket.
- Anant Goenka:** So after market yes credit issues in general have had some impact otherwise I would say generally there is we are finding some amount of weakness in the market anything Kumar you have to add it.
- Anant Goenka:** See general I think OEM sales itself is lower have some impact rub off effect and the uncertainty in the environment people tend to postpone what can be postponed. In general common man got affected because of liquidity crisis and the tyre is not something if we have to replace it today it does not mean that you have to replace it that, if there is an opportunity to postpone one would always postpone. So overall availability of cash and in general liquidity crunch pay an impact on end customers mind with respect to prioritizing the available funds for them.
- Mukesh Saraf:** Right. So this would also mean that when things improve it would actually kind of offset and there will be a pent up demand kind of a thing?
- Anant Goenka:** Yes I think so.
- Mukesh Saraf:** And secondly on the working capital side we also notice that the trade payables have gone up significantly and could you give some sense on that?
- Kumar Subbiah:** See part of that trade payables is also relating to capable purchases and large part of it is also we manage to negotiate better payment from vendors and that helps and third opportunity is also in some cases where we also able to discount, we were able to use bill discounting to increase the credit period wherever there was a priority sector lending available longer period credits also has been getting that at a lower cost so it is a combination of all these. Large portion of it is on account of increase in payment terms and that we are able to negotiate with vendors.
- Mukesh Saraf:** Right, so we can assume that this level kind of can stay in terms of the payable number of days?
- Kumar Subbiah:** Yes, some portion it is relating to capital purchases, so long as the project capex continues some portion of the trade payable will remain others will sustain.
- Mukesh Saraf:** And just the last one on your other income you see that, that has gone up to about 32 odd Crores this quarter from 6 Crores last quarter so some sense on that?
- Kumar Subbiah:** Yes, see we had one income tax pending issue with the department been there for a long period of time the department passed a favorable order and they also paid interest, so this 30 Crores includes about 25 Crores of interest income on the income tax refund.

- Mukesh Saraf:** Okay, thank you Sir. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Sir CV business we just contributed around 32% of overall revenue so how much is from TBR and TBB so what was the mix?
- Anant Goenka:** Sorry the mix of TBR and TBB?
- Abhishek Jain:** Yes, in overall CV segment revenue.
- Anant Goenka:** Yes, so overall truck, bus is about between 35%, 40% of our total about 35% or so of our total value sales.
- Abhishek Jain:** So in presentation it has shown around 32%?
- Anant Goenka:** In terms of radial buyers mix it is about 35:65.
- Abhishek Jain:** What sort of the incremental growth you are looking from the TBR basically in terms of the production in FY2020 because of the ramp up in production?
- Anant Goenka:** Yes we are looking at a substantial growth I think we look for at least about 40%, 50% kind of growth number this year.
- Abhishek Jain:** Next question is related with the passenger vehicle, which contributes around 14% of revenue. So what is your target to increase in FY2020 because you are coming with the new capacity and you have a sufficient order backlog also?
- Anant Goenka:** Sorry could you repeat the second question.
- Abhishek Jain:** So TB which contributes around 14% of total revenue so what is your target to increase in overall pie in the next two years especially in FY2020 as you are coming with the new capacity?
- Anant Goenka:** Passenger vehicle will be coming on-stream only in the second half of the year and it will be a time where we are ramping up. So we expect good growth in passenger car but not very large majority of that growth will come in FY2021.
- Abhishek Jain:** So what kind of the incremental revenue growth you are looking from the passenger vehicle segment in FY2020?
- Anant Goenka:** FY2020 let me give you a number which is towards the second half of the year. Maybe you have at least H2 to H2 something like 20% plus, 20% to 30% kind of growth.
- Abhishek Jain:** And Sir what is the channel inventory at a dealer level right now?

- Anant Goenka:** For tyres?
- Abhishek Jain:** Yes.
- Anant Goenka:** We do not really look at that data for channel inventory generally it is not something which has increased or it is quite stable it is flattish from what it was.
- Abhishek Jain:** So what is the standard level in a CVs and passenger vehicle?
- Anant Goenka:** Standard level of inventory?
- Abhishek Jain:** Yes.
- Anant Goenka:** Say it is really varies in a city like Mumbai the inventory is negative when the customer comes to the dealer then they will call us and then we have to supply the tyre literally that they keep fuel inventory or maybe five tyres like sometimes so it really varies, but they do not stock up too much of tyres.
- Abhishek Jain:** Sir one question was related with the GST you have done some provision of around 40 Crores so will this provision will continue so just give some colors on it?
- Kumar Subbiah:** It is not 40 actually it is 30, I think maybe you are looking at 40 Crores as an exceptional expenses in that 40, 30 Crores is what we have provided for. This is relating to an interpretation of tyres and tubes when we supply what is the rate of GST applicable because tyre is 28% and tubes is 80%, so for the past period we have made a provision on a conservative basis with keeping all the legal options open we have gone ahead and made the payment voluntarily so it is not something, which is going to repeat, it is a one time for earlier period.
- Moderator:** Thank you. Next question is from the line of Praveen Yeolekar from CGS CIMB. Please go ahead.
- Praveen Yeolekar:** One with regard to the change in axle load have you made any product feature changes for both your TBB and TBR for replacement and OE market and how it has been priced into the market place?
- Anant Goenka:** This I think on this our tyres were anyway is a bouquet to take additional 20% load that was there anyways in many states there was overloading, etc. that was happening beyond what was norm. So now it has just been regularized to a certain extent by the government. So we have not needed to make much change in terms of our tyre the nomenclature will undergo some amount of change and that will undergo change I think for the new vehicles that are coming out so accordingly we will have to change the nomenclature to metric system. So earlier it was 1020 it will move to 255 or 90, 20 or whatever it is.



CEAT Limited
May 08, 2019

Praveen Yeolekar: And second question is with regard to TBR considering that you are making your presence more I think TBR what is your feel of new capacity coming on stream in the TBR space in next two three years for overall industry do you see that turning adverse anytime soon in case the demand does not come through?

Anant Goenka: Yes, so I tough to say about what is the industry TBR increase and its impact I can tell you specifically about our case that we do feel that we can utilize this capacity because our market share being low at this point of time and there is an opportunity because of our brand equity and channel presence. So we feel confident about utilizing this capacity it could be maybe three, four months or six months here and there because of the market situation, but we will be able to utilize this.

Praveen Yeolekar: Sure thanks and all the best.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I would now like to hand the floor back to the management for their closing comments.

Anant Goenka: Thank you everyone for your interest in CEAT and I look forward to once again catching up with you all same time next quarter. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI Securities Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.