



“CEAT Limited
Q2 FY2021 Earnings Conference Call”

October 28, 2020



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Moderator: Ladies and gentlemen good day and welcome to the CEAT Limited Q2 FY2021 Earnings Conference Call hosted by Elara Securities Private 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jay Kale from Elara Securities Private Limited. Thank you and over to you Sir!

Jay Kale: Thank you. Good evening everyone. On behalf Elara Securities I welcome you all to the Q2 FY2021 Results Conference Call of CEAT Limited. On behalf of the management we have with us Mr. Anant Goenka – Managing Director, and Mr. Kumar Subbiah – our CFO. Thanks for giving us the opportunity, you can just give your opening remarks and then we can open up for the question and answer session.

Anant Goenka: Thank you Jay. Good afternoon everyone, a very warm welcome to CEAT’s Q2 FY2021 Earnings Call and thank you for joining us today. I am Anant Goenka and we have with us Mr. Kumar Subbiah on call with us. I hope all of you and your families are all safe in these challenging times. I will start with a brief set of remarks from my side after which Kumar will share his update and then we will be happy to take some questions.

As we exited the first quarter of this fiscal we started seeing some green shoots in the replacement segment. This demand largely persisted in the subsequent months and every month was better than the previous. This quarter we also completed the CEAT and CSTL merger in the current quarter hence all our Q2 FY2021 and all comparable periods’ standalone financials have been restated to reflect this. The off-highway tyre segment is quite different from other tyre segments with respect to the high number of SKUs we have with lower volumes and longer gestation period. Hence the sales process cycle of this business is also different, that is why we have setup a separate entity to manage this business back in 2015; however, we had now decided to merge the two entities because we feel there are some operational efficiencies that we may be able to derive through this merger. Though from a business and sales point of view CSTL continue to act as an independent player.

On a standalone basis our revenue for the full quarter stood at 1965 Crores a year-on-year growth of 16.5%. This growth was driven by volume range across segments especially in the farm, CV and TCUV replacement segment. With the ongoing weakness in the OEM market, our OEM business declined year-on-year in single digits with replacement showing strong demand of over 30% growth and exports on the other hand grew in lower single digit. As a result for the first half of this year replacement accounted for 71% of our revenues against the usual approximately 60% while OEM and exports accounted for 17% and 12% respectively. On a quarter-on-quarter basis given the weakness of Q1 FY2021 revenue growth was 76.1%. Our raw material cost came off about 5% sequentially. We also commissioned phase II of our Nagpur plant during the quarter and as a result of this commissioning and ongoing ramp up of our Halol and Chennai facilities

our employee cost went up by about 31% year-on-year. As business picked up our other expenses also returned to earlier levels, as a result of higher production our other expenses were up by about 16% on a year-on-year basis. Despite higher expenses our standalone EBITDA margin expanded by 4.7% on a year-on-year basis to 14.8% on account of operating leverage product and market mix. We ended the quarter with a standalone PAT of 170 Crores.

With respect to our plants, our plants have been operational throughout the quarter and picked up on a gradual basis; we are adhering to all prescribed social distancing norms by ramping up our production and have ensured timely delivery of products all across the country. We also took this opportunity to further focus on strengthening our supply chain and adding more dealers and distributors. During the quarter we added about 200 new outlets across categories and regions. OEMs are gearing up for the festive season in anticipation of demand revival. This quarter we announced our association with Mahindra for the launch of their all new Mahindra car. The car was launched in two models with 16 inch and 18 inch tyre sizes and we will be supplying car tyres for both the models. Many of the OEM launches in the first half of the year have been pushed back to later part.

On the advertising front during Q2 Aamir Khan joined the CEAT Tyre family as our brand ambassador. You may have seen some of the advertisements that we launched for SecuraDrive. We wanted to rope in a celebrity to specifically focus on our premium offering and Aamir was always our first choice. This association will be for a period of two years. We continued our association with IPL as a strategic timeout partner and we have extended our partnership with the Torino Football Club, Torino is one of the historic and prestigious clubs in Italian football and we are happy to continue this partnership further. Overall advertising expenses were up by about 20% on a year-on-year basis. With the start of IPL 2020 we also launched a newer tyre on the CEAT website it is focused on providing easy access of information and customer assistance. The website reflects the customer and employee friendly culture of our company and further our vision of making mobility safer and smarter every day.

At CEAT we are constantly working to ensuring that our customers have an enriching and safe experience while interacting across touch points. Keeping this in mind we have launched CEAT doorstep services wherein customers can avail various services like vehicle pickup and drop, tyre replacement, wheel balancing, etc., anytime anywhere. We were recently partnered with ReadyAssist as part of our Roadside Assistance Program to offer 24x7 roadside services. We also launched products like neck gaiters and sanitization kit for customer safety in the current times. With this I will now hand over the call to Kumar.

Kumar Subbiah:

Thank you Anant good afternoon ladies and gentlemen and thank you for joining our call for Q2 FY2021. In our earning call today I will share some further financial data points post which we can enter Q&A session.



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As Anant mentioned with effect from September 1, 2020, we have merged the two entities CEAT and our 100% subsidiary CEAT Specialties Limited and all our financial numbers of standalone CEAT now would include CSTL for the current quarter and also for the comparable periods.

Now let me briefly explain about our revenues for the quarter. Our consolidated net revenue for the quarter stood at 1978 Crores, a growth of about 17% versus the same quarter last year and the growth was mostly driven by volume gains. Let me explain now about gross margin. Our consolidated gross margin for the quarter was about 46.5% an expansion of about 530 basis points versus the same quarter last year. Our gross margin improvement was on account of various things including lower raw material cost, favorable business and product mix and effective cost control measures that we have undertaken during the quarter.

As regards our capital expenditure and cash flow, we continued our effort to minimize our capital expenditure during the quarter that help to manage our total cash flows relating to capex within about 138 Crores during the quarter, which compares favorably with the corresponding period of last year. Further we also continued our monitoring and efficient management of working capital during the quarter. Our overall working capital for the quarter came down by about 55 Crores, which is over and above 134 Crores of reduction that we achieved in Q1.

In the first half of the year we manage to bring our operating working capital down by about 189 Crores. As a result of a significant improvement in operational efficiencies and also working capital and capex management our debt as of September 30, 2020 came down by about 190 Crores versus June 30, 2020 largely supported by operating cash flows and efficiencies in working capital and capex. We ended the quarter with a consolidated debt to equity ratio of 0.6 versus 0.69 as of Q1 FY2021. For the full year we expect our capex to be in the range of 550 to 600 Crores relating to projects, over and above that we also would be incurring some capital expenditure for our specialty business. As regards our operational expenses, our employee cost went up by about 33% versus the same period of last year, this is primarily on account of commissioning and ramping up of Chennai, Halol and Nagpur plants, further in the Q2 of last year we had a onetime reversal of certain provisions and therefore the Q2 of previous year's number is understated to the extent of around 20 Crores, 21 Crores. With production ramping up across all our facilities our consolidated other expenses went up by about 15% year-on-year primarily due to higher level of activities and also cost relating to advertisement and research and development expenses.

Now let me briefly touch upon the impact of merger of CSTL. During the quarter we merged our 100% subsidiary CEAT Specialties Limited operationally from September 1, 2020 and effectively from April 1, 2019 as per the order passed by NCLT. We are happy to inform you that we have successfully completed all the formalities relating to merger and therefore we were able to commission all our operational activities from September 1, 2020 for specialty business. The effective date of merger though it is on April 1, 2019 the impact of income tax on accumulated losses is reported in Q2 results and consequent to the merger and the accumulated losses in the books of CEAT Specialties Limited our income tax was lower for the quarter to the extent of

about 55 Crores. During the quarter as we commissioned our Nagpur plants and progressive commissioning of Chennai plant would also have some impact on our depreciation and interest cost, so overall we ended the quarter with a consolidated profit of 182 Crores and a standalone profit of about 172 Crores. Our EBITDA for the quarter stood at 14.8% on a standalone basis and 15.6% on a consolidated basis an expansion of about 470 to 500 basis points for the standalone and consolidated. Now let us open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Two questions one to Anant and one to Kumar. So Anant question to you is about demand outlook across segments given that now we are largely into normalcy as far as business environment is concerned so do you expect the momentum, which you have seen in second quarter to sustain in replacing demand particularly that is one and secondly the question to Kumar is with respect to the tax rate or other accumulated losses of CSTL have they been fully absorbed in 2Q or we can see some further benefit coming in coming quarters?

Anant Goenka: I think that with respect to demand outlook demand continues to remain strong going into this quarter so OEM demand particularly in the month of October and November is looking strong, the good is that yes revenues look to be continuing to be growing well, on the other hand with strong OE demand there can be a little bit of adverse mix relative to the last quarter because we have to fulfill our requirements to the OEMs. So overall for the near-term demand outlook is good I say Jan, Feb, March, we have to wait and watch as to what will happen around that time, but as of now looking good.

Jinesh Gandhi: But on the replacement side?

Anant Goenka: On the replacement side as well.

Kumar Subbiah: As regards income tax benefit this is the onetime income tax benefit that we have accrued in Q2 and from here on the normal rate of tax would be applicable so there is no additional income tax benefit, which we have not accrued. Everything has been accrued and from Q3 onwards the normal rate of tax would be applicable.

Jinesh Gandhi: If I may ask one more question would you be able to share RM cost details in terms of your blended cost and how it has changed in this quarter and what is the expectation for coming quarter considering natural rubber spike which has happened?

Anant Goenka: With respect to raw material as I said about we have seen a 5% drop on a quarter-on-quarter basis, year-on-year would be about 9% to 10% kind of level shift, largely the drop has come in carbon black, which has come down quite considerably because of it is all indexed to crude and crude derivative index, etc., whereas all others have also come down by approximately 10% between natural rubber, synthetic rubber fabric on a year-on-year basis so that is the approximate

shift in terms of raw material cost that we are seeing. With respect to going forward crude is quite stable today at about \$43 or so whereas natural rubber has gone up pre-COVID levels NR was at about Rs.132 per kg it came down to about Rs.118, Rs.120 per kg post COVID and now it has climbed up to about Rs.150 per kg at Cochin. So to that extent we do expect our raw material prices to go up by 2%, 3% points in Q3 and then again further in Q4.

Jinesh Gandhi: Thanks Anant.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir my first question is on the replacement segment so if you can just highlight broadly across segments how have been the growth and how is the current months like September, October looking some color on that will be really helpful?

Anant Goenka: Yes the replacement segments has seen growth across categories, farm has shown the highest growth of 70%, 80% plus kind of levels even the commercial vehicle segment has seen very strong growth, passenger vehicle, motorcycle the reason we were not able to grow higher was because of constrained capacity more than anything else, so there is no single category that has shown really less than single digit growth everything has been double digit plus kind of growth in the replacement segment. Demand continues as I said to be good in the months of October, November the challenge will be more on supply constraint at this point so as I said OEM demand is going up so you have to allocate capacities between OEM and replacement and with OEM demand being high pre-Diwali we will have to allocate higher volumes to OEM and therefore replacement while demand is good we may have to allocate a little less to replacement demand, but it is a sign that demand is quite positive at this point of time.

Siddhartha Bera: If you can help with the capacity levels with this Halol plant now coming on-stream is the entire TBR capacity now are on-stream or it is still moving up further going ahead, so if you can just help us the capacity across TBR, PCR currently and the utilization levels?

Anant Goenka: Yes, while we commission the plant there is still downstream equipment that is getting commissioned over the course of the coming say six months to nine months time so that capacity will keep going up. Utilization levels there are at about 50% of terminal capacity of the entire plant kind of level so say it is about 120000 tyres per month will be the overall capacity including phase I and the total truck radial capacity we will be at about between 60000, 70000 kind of tyres production levels today. With respect to passenger car Chennai facility there we are at very early stages of ramp up so eventually this will be 20000 tyre capacity per day plus another 10000 tyres coming in the next phase out of 20000 we will be somewhere under 5000 tyres per day capacity at this point of time and that is more because of during COVID times we had to slow down the ramp up because we did not know how demand will turnout, now we are going all out in terms of recruiting people and trying to ramp up our capacities at a faster pace. So there is a lot of capability in terms of the passenger car space.

Siddhartha Bera: Last question if I may take if you can help us also the market share given the strong growth we are seeing across segment so how has the market share moved in the TBR and PCR segment and do you think we can move that up further given the outlook that will be my last question?

Anant Goenka: Yes, so we do not have data to comment on market share, also the first four, five months of the year was very much kind of supply capability gain, because of COVID situation some people had to cut capacity, some people have to shut down their plants, so it was more on capability to supply, I believe we did a good job and we would have gained market share during the first four, five months of the year. Now that supplies have stabilized I think the market share levels will may not sustain at the same level that they are, overall I believe we would gain more in the passenger car space and a little bit less on the truck space, but we do not have data to specifically say what has happened in say at least a month of August and September.

Siddhartha Bera: Okay Sir got it, thanks a lot; I will get back in the queue.

Moderator: Thank you. The next question is from the line of Gaurav Khandelwal from Mirae Assets. Please go ahead.

Gaurav Khandelwal: Congratulations on great set of results. Sir just few questions on margin side, so your raw material cost has been very volatile obviously for the reasons that we had alluded now, so is there any kind of target or range that you can guide going forward in the normalized mix environment at the current commodity prices, what can be your gross margin level going forward?

Anant Goenka: At current means today's commodity prices which we are procuring and will come in now say three, four months time I think there will certainly be a contraction, on average if you look at the last one year or so our margins have been around 10%, 11%, this quarter was at around 15%, approximately margins will be between these two numbers somewhere there, I do not think we can give specific guidance on a number, but I do believe margins will come down a little bit from Q2 because the mix will not remain so much skewed towards replacement and raw material will also go up, so these are the two factors that will cause a little bit of reduction in margins relative to Q2.

Gaurav Khandelwal: So when we say that there will be 2% to 3% point increase in the subsequent two quarters these are 2%, to 3% each for the Q3 and Q4 right?

Anant Goenka: Yes Q3 there will be about 2%, 3% increase because we know what has been purchased and we also have got some lower cost raw material early on which will be coming in, in October and November, but from say December, January onwards we will start experiencing the entire higher cost of raw material that we will be buying so yes Q4 would be a little bit higher than Q3 as well. Kumar would you like to add anything there?

Kumar Subbiah: Yes, so there has been a spike in the natural rubber and synthetic rubber prices and therefore Q3 around 2%, 3% is a reasonable estimate, Q4 all depends on when this would settle down whether

it will remain at the current level or it will come down would determine not guided but our estimate of 3% should be confined only to Q3.

Gaurav Khandelwal: On top of that you are implying there will be normalization of mix that will be within this 2%, to 3% you have included the normalization of mix?

Kumar Subbiah: No 2% to 3% is only raw materials and in addition to that what Anant indicated was that mix in Q2 was more in favor of replacement when we may go back to a little normal level of BU mix in Q3 so that may have some minor impact, but it would not be very significant there is some small impact.

Gaurav Khandelwal: Just one last question if I may on your employee cost and other expenses like you said you are ramping up plant so if the current level of employee cost and other expenses corroborates with the revenue that you are doing or you can do higher revenue with the current employee and other expenses like talking other expenses that will be also helpful?

Kumar Subbiah: Other expenses I think from current level what we have in Q2 it is possible to sustain it in Q3 and Q4 because you would have seen substantial increase in Q2 versus Q1 because it is largely relating to the level of activity and marketing cost that Anant also mentioned. As far as employee costs are concerned I think it will go up in Q3 and Q4 as we are ramping up more people would be added so there would be some increase over Q2 and Q3 and also in Q4.

Gaurav Khandelwal: Sir what I wanted to check was that whether the 466 Crores of the other expenses and 160 Crores of employee expenses that is there in the P&L that does represent the current level of revenue that you can do or you can do higher because there is much my understanding is that what you are implying that you have done some up fronting of cost because of commissioning more plant and ramping up of plant is that understanding correct?

Kumar Subbiah: Your understanding is right with respect to other expenses, with respect to employee cost you always recruit people a little ahead of times, ahead of requirement, so assuming that we sustain similar level of revenues in Q3 and Q4 we may still incur a little more employee cost.

Anant Goenka: Yes I think just to add more that what we are doing for example is in our Chennai plant and our Nagpur plant where capacity is going up we recruit say another 20, 30, 50 more people and we expect further ramp up of capacity so based on the current cost that we are incurring yes there will be some additional revenue that we can earn on top because we are recruiting those people about three to four months in advance they will undergo training and then we will realize the benefits of that additional cost about four to five months later.

Kumar Subbiah: Thanks Sir.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Congratulations on great set of numbers. I had only one question, which is regarding to your debt levels and your capex, you guided about 500 Crores of capex on your expansion this year and about 100 Crores of other capex and given the strong cash flows you have managed the debt levels very conservatively, if I move into the year after entire capex 3500 Crores capex how much more is left over and there will be expected debt levels to be?

Kumar Subbiah: What we have indicated the capex for the current year is say 550 to 600 Crores on normal capex, project capex and in a normal course we spend about 150 odd Crores of routine capex so these two plus we also need to spend some capex for our specialty business and that is linked to milestones so that capex so in the first six months approximately we have only spent 260 Crores including all routine project capex, our expected capex in the second half of the year is likely to be more if we add up all of that and while first half we manage to bring our debt levels down okay we expect our debt level to move up in line with the increase in capex plus the efficiencies that we achieved in working capital in the first six months is about 190 Crores or so that also helped in bringing our debt level now we may have to go back to a normal level of working capital from here on, for example our finished goods inventory is quite low today, our ability to service at the current level of inventory is not very high so that is how approximately about 100 odd Crores of working capital we expected to go up in the coming months and it will get normalized at that level so if we add all of that there will be some increase in that I am not able to exactly tell you what is the level of extent of increase is there, but the debt will go up taking into consideration an increase in capex and working capital.

Vivek Ramakrishnan: Just on the balance capex after the current year how much is left to achieve your targeted three expansion projects that you had?

Kumar Subbiah: Total Capex plan was 3500 Crores out of that approximately about 2300 is what we have spent till date as September 30, 2020 so we have 1200 Crores left that we will spend this year next year and the following year. This is only CEAT plus our specialty business.

Vivek Ramakrishnan: Thank you Sir that was very useful thanks a lot.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Sony Investments. Please go ahead.

Sachin Kasera: Congrats for a good set of numbers, just a followup to this previous question while you mentioned that 3500 is only the capex for CEAT how much would be the additional capex pending in specialty?

Kumar Subbiah: 500 Crores is the estimate for us to take it to 100 odd tonnes of capacity, but that 500 Crores would be spent subject to business achieving milestones, so out of 500 we expect to spend around 100 Crores this year and at the moment a business achieved the next milestone something more would be spent in the coming years.

Sachin Kasera: Sure so basically if we achieve the milestone in that case the pending capex is roughly around 1800 including specialty as on date?

Kumar Subbiah: Yes, true.

Sachin Kasera: So in that case and while you mentioned now so on the debt but is it that the debt levels could go up a little bit from here or we could see a significant increase in the debt before it peaks out and then once these capacities get utilized the net debt has to come down after the six, eight quarters if you could just comment broadly directionally whether this 1800 Crores of debt can go up significantly because of this capex in the next four or six quarters?

Kumar Subbiah: Balance Capex is 1700 so 1200 Crores balance in CEAT and say it is little less than 500 Crores for CSTL it all depends on when you spend, the debt is always a function of total capex after adjusting for your operating cash flows so if we continue to exercise caution with respect to CSTL that is specialty business and we keep spending not 500 Crores in one go 100 and 200 okay the increase in debt or the increase capex requirement can be largely funded through internal accruals once we finish that our first 3500 Crores cycle it should go up, but it depends on operating cash flows also so I expect that at a level to increase after you had normal capex plus working capital, we are seeing it in a debt level number because it is a derived number.

Sachin Kasera: Sure I understand so let me put it differently Sir will you recalibrate your capex so that your debt to EBITDA does not say go beyond 3 accordingly you will recalibrate the capex depending on where you are spending the next 18 months or 36 months depending on the demand outlook and the EBITDA so that this net debt to EBITDA at least remains below 3?

Kumar Subbiah: Yes, net debt to EBITDA continues to be good news is that it is closer to 2 then closer to 3 as of today based on if you convert first time EBITDA multiplied by 2 and take and annualize the number so I think internal threshold is 3, Anant personally reviews and monitors and maybe there could be a short period that could go up, but we are trying our best to make sure that it is within our internal threshold.

Sachin Kasera: Sir if you could just update on what is happening on the specialty side you mentioned that it is linked to certain milestones and all so now some of the entity if you could just update how is that business done last two, three years and how are you seeing the performance going ahead?

Anant Goenka: On the specialty tyre business the business is of a nature where the product lifecycle is very long and it is very seasonal, so the life of a tyre can be six years, seven years kind of period of time so the trial period therefore for a customer to know that it is a good quality tyre can be a little longer. The second thing it is a very seasonal demand so there are certain what they call as spring dating and high demand periods, which also have some impact, which makes the gestation period of this business a little bit on the longer side. The third is building an entire range of tyres is very important, which also takes two to three years time, we have gone through all of this, our product has been well established, and we are seeing good growth in this segment. We are nearly full

capacity utilized nearly at about 85%, 90% while there is a small capacity and we plan to take up this capacity in modules of somewhere around 15 to 20 tonnes per day, over time it is about 30, 35 tonne per day capacity today, this will go up say to about 50, 55 and then again another 15, 20 tonnes based on demand so the capex will be low and the expansion also will be measured based on utilization so the moment we reach 80%, 90% we will kick off another say 60, 70, 80 Crores capex plan again take up capacities to the next level and so on and so forth so that is how we plan to look at this business and we are seeing very good feedback on the product, this is primarily for Europe and US markets.

Sachin Kasera: Thank you.

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

Ashutosh Tiwari: Firstly we have seen that there is almost 2%, 3% of RM price increase will happen in third quarter is there any thought process to increase prices?

Anant Goenka: We have not taken anything yet, going forward also on the OEM side there is anyways linkage to raw material prices that happens rest of the business will really depend on what is the competitive pressures that are there demand supply at that point of time and difficult to give an answer as to whether there will be or not the price increases I think we will only give the protocol after about a couple of months time.

Ashutosh Tiwari: You said that right now the supply issue in market and globally and later on also not able to meet demand, so in such a scenario also I do not think that it is conducive to take price increases or follow when completion takes it?

Anant Goenka: Right now we are not planning to take any price increases, we will take a call over sometime, it may take some tactical price increases for example if we have new product launch like in the truck radial we launched some new tyres, in the farm segment we launched some new tyres new range of a farm tyres so with some of these launches these tyres are priced higher than our pre kind of version of the tyre so that is how we are taking up net realization a little bit, but on the base existing products no clients at this point of time.

Ashutosh Tiwari: Secondly on the receivables, which we have dropped in first half so is it because of maybe if the supply situation is tried in a different market probably the terms are better with dealers right now and probably somewhere it will change the receivables can increase and also it is because of OEM being low that is why it is low right now and probably increase in the second half?

Anant Goenka: No, largely the collections have been good at this point of time, there are no changes in terms with dealers it is just overdues have come down Kumar would you like to add anything?

Kumar Subbiah: Yes, true it is largely I think the quality of the business has improved, we have not changed the credit period so as of March 31, 2020 because it happened during COVID period lockdown

period there were in the second half of March I think our collections slowed down due to lockdown and September 30, 2020 I think overdues is at a very good level so other than that there is no change in payment terms and higher level of activities higher level of sales also would have some impact in absolute value, but overall nothing else other than no change, collection efficiency has improved substantially in the last six months, quality of receivables has improved, but no change in credit terms.

Ashutosh Tiwari: It is around 950 odd Crores currently and probably will incur roughly maybe of 500 Crores capex in second half so is that see a substantial drop by March, or it will be just like the Capex?

Anant Goenka: I just want to clarify 550 to 600 Crores is the total amount out of that close to about 200 we have already incurred at the first half.

Ashutosh Tiwari: What you mentioned is maintenance capex?

Anant Goenka: Yes, maintenance normally gets capitalized mostly very small amount remained in work in progress if we have included that, second I think we commissioned our Nagpur facility towards the end of August and Chennai we keep commissioning assets every month so that is how you would see that capital work in progress amount coming back from 960 Crores progressively in the next six months time. It will keep coming down in the next six months time as we keep commissioning Nagpur and Chennai.

Ashutosh Tiwari: Okay Sir thanks a lot.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Congratulations on good set of numbers. Anant do you say that we have just commissioned this Nagpur plant and where we can ramp up the capacity slowly as well as Chennai is also ramping up slowly currently we are less than 25% utilization so in that scenario do we see incrementally demand remain where we are still we face the capacity constraint?

Anant Goenka: Yes so what happens is that if you look at Q1 was of course a complete washout quarter for the entire industry and a lot of uncertainty at that point of time, so at that time whatever expansion plans we have we had kept on hold, by June end, July onwards things started to get better and we then decided okay whatever capex that we have planned let us start now going ahead and deploying people because demand is looking a little bit better so what happens is while we have done the capex you need to get people trained on how to use the machines and that is about a three-to four-month training period, it also happens in group so you cannot get say 1000 people in the factory all 1000 and training them because the capacity also does not go up vertically or demand does not go up vertically so we generally plan for example if Chennai was just started up in February we have now taken it up to about 3000, 4000 tyres per day, we want to take this up to 8000, 9000, 10000 tyres per day, but to take it up to this kind of number it will take about six

months time for us to reach that because these people need to be trained, machines need to be tested and taken up to full cycle times, etc., so that takes a period of time so that is why it is not fully ramp up but that is the process of tyre ramp up, with so much uncertainty being there we ourselves have slowed down the process as of April, May.

Bharat Sheth: How do we see start contributing really meaningfully?

Anant Goenka: This is phase II of Nagpur plant, which we commissioned just in this quarter and this two will start ramping up just the way any other factory so it will start seeing higher volumes as we speak and in every month we start seeing larger volumes from say next month onwards.

Bharat Sheth: By end of Q4 we will be again out of this capacity constraint what we are seeing today?

Anant Goenka: Yes we will be.

Bharat Sheth: Specialty tyre since we have given a merger entity so has been contributing at EBIT level?

Anant Goenka: It is positive EBIT as of last quarter.

Bharat Sheth: Slowly with this ramp up do we expect it will start some kind of a margin positive and EBITDA margin is normal at company level or it is little higher once it becomes say we reach to 50 tonnes, 55 tonnes capacity utilization?

Anant Goenka: There are two parts of the business one is the domestic farm business, which had always been there with us that is a relatively lower margin business on average lower than the company average historically whereas you have your international farm business, which is there a new business has been set up where this Ambernath factory has been set up for Europe and US there the EBITDA margins are considerably higher so if the company average margin maybe around 11%, 12% say over the past year kind of period this will be substantially higher, if you look at other competitors they are at 20% plus kind of level so EBITDA will be good right now doing a very small capacity in plant your interest depreciation is quite high so PBT will be a little bit lower, but as it ramps up the overall margin profile will be better than average of the company.

Moderator: Thank you. The next question is from the line of Bhaskar Bukredivala from ASK Investments. Please go ahead.

Bhaskar Bukredivala: Anant couple of questions one what would be your market share in the passenger vehicle segment particularly in the replacement category?

Anant Goenka: Historically it would have been at about around 10%, 11% kind of levels, if you were to look in the last six months there is too much of volatility in terms of demand supply across the board, but post COVID I think our market share should settle at least 3% to 4% percentage points higher so maybe around 13%, 14% is what I would expect.

Bhaskar Bukrediwala: But that could also be a factor of our ability to handle supply chain better than others?

Anant Goenka: No, I am saying if you look at it temporarily in the month of April, May, June, July our market shares have gone up quite substantially so that would be substantially higher based on some production data that we have of the tyre company, but we expect this to come down as everyone's production and it is come down to about maybe 13%, 14% levels rather than lower so in my view today's market share in the passenger car segment would be even higher than that. So what I am saying is if you look at supply demand situation at this point of time for the last six months our market share would be higher than around 15% kind of level. From an average of 10%, 11% this will come down as everyone supplies stabilize but it will come down to about 3% or so higher than is what I expect than everyone else because we have also added a fair amount of capacity.

Moderator: The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Congratulations for good set of results. My first question is related to the replacement segment, we have seen a strong growth after first quarter, which we understand that given the trucks have started to move now, but if you look at the full year estimate according to your guidance it looks like we are looking at a 10% kind of growth in utilization because the OEMs will be down by around at least 30%, 35%, is my estimate right from a full year perspective on a YoY basis?

Anant Goenka: I can tell you right now for the current quarter broadly we will continue to see at an overall demand level good demand, the challenge on the replacement side we see can be that of allocation, so our replacement supplies maybe coming down relative to Q2 in Q3 just because of allocation, but overall volumes maybe at around similar maybe marginal drop because we starting off with very low inventory levels whereas we started off Q2 with slightly higher inventory level so it is more on the production capacity constraints that we are facing that is going to come with a little bit of challenge, but Q4 will be difficult to predict what will happen post festive season on the other while we are seeing all this personal mobility, channel selling, etc., happening what will stop by Jan, Feb is the question coming in. On the OEM side I think these will only get a little bit better so that is one and on the export side similarly things will get better, so relatively at an overall basis I think things should continue to be okay, the mix may become a little bit lesser on the replacement side.

Hitesh Goel: My second question is on the cost basically in the last quarter you had guided for a 15% reduction in cost, but we are seeing now cost going up as the business is ramping up and may reach last year's levels in terms of when I see other expenses the employee cost will be even higher from last year expense so why such a big increase in cost increase advertising spends when there is more pent up demand?

Anant Goenka: One is we are going to continue to invest in advertising, advertising generally will be at about 2.5% revenue so if revenues go up higher than expected we may even take up our absolute advertising cost, also this quarter IPL got shifted from Q1 to Q2, so on year-on-year basis we will

be seeing larger advertising cost. We find Aamir Khan as our brand ambassador, we are very visible there and that is something we will continue to do, so if you look at advertising as percentage of sales this will be even higher as a percentage in this quarter so it is a little bit more bunched up at this point of time. On the employee cost as we share the increase in cost is a lot related to production increase so to that extent you need to pay outsourcing partners more, you need to invest a little bit more in people, etc., that is going on. Our cost reduction program that we are working on that is still underway, we are aiming for about 100 Crores reduction and some of it has started giving fruits, but it takes about six to nine months for a lot of this to happen, some require a little bit of investments, etc., and by the time the benefits come in it takes sort of six, nine months time.

Hitesh Goel: What are these costs which we are working on?

Anant Goenka: They will include things like utility cost, reduction, power, fuel, network redesign, if we have to look at redesigning our CFAs and our depots, etc., to reducing cost towards direct delivery; some of these are some examples employee cost reduction.

Hitesh Goel: Great thank you Anant all the best.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Congratulations on great set of numbers. I have three questions one you mentioned about expense in the opening remarks what is the growth for H1 or decline for the H1 of this year, second in terms of volume growth for the quarter how much was the volume growth I probably missed in the opening comments and third is that in terms of your passenger vehicle plant in Chennai besides tyre any other new model wins that probably you could highlight?

Anant Goenka: On volume growth it would be very similar to our value growth not much difference only in the OEM segment there will be just a little bit of difference to that extent because OEM prices have come down, but largely realizations have been very similar so net-net volume and value would be nearly the same, sorry what was your first question?

Kashyap Jhaveri: In terms of ad spend was the number that you mentioned was for the H1 or for Q2, if it was for Q2 what was the H1 ad spend growths are declined?

Anant Goenka: No H1 to Q1 our ad spend was 0 we cut all cost to 0 levels, Q2 ad spend would be 50 Crores plus, which would be maybe more than 3% of our revenues.

Kashyap Jhaveri: Any new model win OE for passenger vehicles?

Anant Goenka: Yes, there would be, there are various other nominations that we have received is it okay I can take it offline with you I do not have all the details of the OEMs that we aware with?

- Kashyap Jhaveri:** Sure that is it from my side Sir and again congratulations for a great set of numbers. Thank you.
- Moderator:** Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.
- Ronak Sarda:** Sir just a followup when you said the RM cost will be up 2% to 3% in next quarter this is you are saying on a year-on-year basis or this is from the current Q2 level?
- Anant Goenka:** Q2 to Q3 and Q3 to Q4.
- Ronak Sarda:** That is not much after the 10% decline and the other question was on the replacement demand now I understand if it has gone at 30% in the quarter there would be some bunching up happening because of lower demand in Q1, but seeing similar growth in Q3 what reason would you ascribe this to because on long-term basis we usually see growth in that 8% to 10% range?
- Anant Goenka:** Yes, I think one is because of import tyre restrictions that have been imposed, second is rural economy generally doing very well with a good output and third is possibly a move more towards personal mobility, which is causing good demand for cars and two wheelers.
- Ronak Sarda:** This imports restrictions how has been the China imports now have they completely gone down to 0 or are they coming back in the system?
- Anant Goenka:** They have come down nearly to 0 I believe the OEMs are able to import so today for a car manufacturer or commercial vehicle manufacturer wants to buy they largely permitted whereas traders need to get a license from DGFT and that is where I think it has come down to near 0 levels.
- Ronak Sarda:** So then this kind of a growth on this TBR side on the CV side we can say at least for next three quarters still that comes in the way so if you can just highlight how much was the large available import data if you have the numbers and how much was the kind of imports, which were happening, what is the percentage of the demand?
- Anant Goenka:** It varies category wise, largely the highest import was happening on the passenger car space followed by commercial vehicles and two wheelers, so passenger vehicles may see the highest impact on this case, also there have been increased import duties gradually whether it is antidumping duty or whether it is regular import duty that were imposed over the last three years, so gradually commercial vehicle say for example there was at one time 1.5 lakh tyres per month were coming in just came down to about 50000 this will be again back to much lower level now so that is on commercial vehicles, on passenger vehicles also there would be a substantial reduction in terms of the purchase or imports that are happening.
- Ronak Sarda:** But would that be like 10% of the replacement demand or that would be a large number?
- Anant Goenka:** I think it would be a little bit less than 10%.

- Ronak Sarda:** Sure perfect. Thank you.
- Moderator:** Thank you. The next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.
- Akshay Satija:** Sir what is our current capacity in terms of segment wise after all this expansion stuff and what will be after the commission of Nagpur and the Chennai plant completely?
- Anant Goenka:** Our capacity for truck radial will be about 120000 tyres per month, our capacity for Chennai let us assume phase I of 20000 tyres per day and Halol is also just about around 20000 tyres per day and SUV will be about 40000 tyres per day capacity and our two wheeler capacities will be about around 30 to 35 lakh tyres per month.
- Akshay Satija:** One last question our current trade for the entire tyre industry is roughly approximately \$18 billion there is still lot of imports in US from China, Thailand and imports from India are very low so total export volume is lower than 2%, so can you see a huge opportunity in that side are we looking forward to export a lot because we are seeing lots of capacity going up in the entire industry, lots of players coming up with lots of capacity?
- Anant Goenka:** There has been a fair amount of exports that were done from China, now over the past year, year-and-a-half there has been antidumping duty in the China and the US. There is a very good opportunity to export to the US; however, if you do not have the range of tyres for the US sorry you are not making the range is completely different, you cannot take a Indian passenger car radial tyre and sell that in the US the road conditions there are very different, driving habits are different, speeds are different, even weather patterns are different, so you have to create a specific product range, test it out and then supply to those markets, which can take about a year-and-a-half to two years time.
- Akshay Satija:** So currently we are not looking forward to?
- Anant Goenka:** We do sell to the Europe and there we are looking at it strategically, we have been there for some time, we have a R&D office located in Frankfurt particularly for the European markets and to that extent Europe is very important, also CEAT was an erstwhile Italian brand so to that extent Europe, Italy, Spain, Germany all of these countries are important and we have been growing very well in these countries. US is something which we do not have the range yet, it will take us some time to enter the US even if we decide to.
- Akshay Satija:** Sir final question if you could just give us some ball park realization numbers for the entire industry per kg in terms of the key segments even asking for CEAT I know you did not share a data, but if you could give me just a broad number segment wise?
- Anant Goenka:** No, I would not have that data for the industry and I cannot say for CEAT and industry also I would not have that data.

- Akshay Satija:** Okay thank you so much.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** Sir a very strong performance many congratulations on that sir, on the PCR side specifically in the aftermarket you did mention given the higher level of imports, which have now come to almost negligible levels and these tyres will largely be in the smaller radial size 12 and 13 inches and are the customers are the taxi customers or personal buyers also, any some sense on that Sir and we would have substantially gained more than the market leaders given the supply chain challenges that others would have changed during this six months?
- Anant Goenka:** Yes so the imports that are coming in are actually across the board it is not only the taxi users that use imported tyres but you will also have a lot of premium tyres that are used are get imported so to that extent it is across the board that we think imports have largely been stopped, also now the 14, 15 inch is the new 13 inch, so these are over time as well it is increasing the key sizes in India inch sizes also going up, so that is one on the imports, sorry what was your second question?
- Shyam Sundar Sriram:** We would have substantially gained more than the domestic other market leaders within the PCR segment given the supply chain challenges that others would have faced from this PCR import?
- Anant Goenka:** Yes, overall demand has gone up during this period we think we have gained more in terms of market share; however, the market share that we feel we have gained is not fully sustainable it will go up, but as I said it will come down as everyone else's capacities also come back, but overall volume will not come down.
- Shyam Sundar Sriram:** Understood. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** My question was on the replacement segment I understand you mentioned that replacement volume grew by 12% in second quarter I would understand that it will be partly to build up channel inventories as well and when you say that replacement demand is sustaining well what kind of growth levels are we actually talking about in terms of sustenance of growth in replacement market?
- Anant Goenka:** So last quarter we were at over 30% growth I think right now demand is such that we are also seeing similar levels of sales that we saw in the previous quarter so percentage growth at this point of time is demand wise is looking to be good, again as I said earlier the allocation is the question where OEM demand has picked up quite a bit particularly in the passenger car and two wheeler segments, so to that extent our absolute numbers may come down in the replacement in October, November, but demand continues to be strong. Whether it is sustainable is a big

question I do not have an answer to whether this will continue in Jan, Feb, March there are lot of headwinds also that are there with unemployment generally going up, negative GDP growth, those kind of challenges, but on the other hand my view is that demand is looking good because of the two, three reasons I had highlighted earlier, tyres having imports having got restricted and the rural economy is generally doing well.

Nishit Jalan: Anant just a followup on this, is the demand at the retail level also equally strong or this includes the update of channel filling as well?

Anant Goenka: No, in our case there is no channel filling this is completely channel filling would be happening maybe on the OEM side because they are preparing for Diwali time, but replacement since there is no channel filing really that happens, people do not keep too much inventory or very little channel filing impact that will happen.

Nishit Jalan: Thank you so much.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Anant the question I had was on the import restrictions we are taking it forward for the CV side so where do you see the markets swinging on the CV side is it benefiting the TBB segment more than TBR or is it equally split between the two that is my first question and associated what is your TBB or kind of utilization level that you are seeing in the industry level if you have any sense on that and my second question is did you actually break down quantify your gross margin benefits that you use the three key levers to gross margins under the lower RM product mix and cost control can you break them down individually?

Anant Goenka: On the commercial vehicle side we are seeing full utilization of our truck bias capacity, which is quite surprising this is a category which is continuously seeing negative growth, so to that extent it is pleasant to see TBB going up, in past this is because customers are downtrading to lower cost TBB as well, but overall growth on TBR also has been very high, so overall commercial vehicle demand is looking to be good, a little bit higher on the truck buyers, in absolute terms the radial has also seen very strong growth, so both are seeing good traction.

Nishant Vass: So this quarter you would have seen actually realization for the industry come off on a QoQ basis?

Anant Goenka: Tough to say whether it would have come off to that extent I do not think so I think the percentage remains largely similar. With respect to the gross margin you said on raw material product mix and what was your third net realization is it?

Nishant Vass: Yes, this Kumar mentioned these three key levers for the gross margin improvement just if you could highlight the quantification of each of these levers for the gross margin improvement?

Anant Goenka: The raw material prices have come up by about 5% whereas net realization has been largely flat except for the case of OEMs, which is index so it would have come down by approximately a similar kind of amount and mix as I said replacement had gone up from about 60% to 70% of our revenue so that would be the big reason for change in terms of our gross margins. Kumar anything you would like to add on that?

Kumar Subbiah: Yes right Anant, that is right broadly realization per kg has remained the same for the year-on-year basis and as you indicated the entire raw material cost approximately that 5% has grown too, mix impact is small that is all and all other costs saying that we have mentioned it will flow in the EBITDA not in gross margin so since your question was on gross margin, the way we calculate gross margin is selling price minus raw material cost, so any improvement in the gross margin has to come from raw material, net realization or mix

Nishant Vass: Sorry Kumar I just got little confused because Anant mentioned that the big benefit came from the replacement mix going up and you are mentioning that mix can play much of an impact so can you just clarify which actually is a big driver?

Kumar Subbiah: He mentioned to you that raw material is the biggest contributor here and the second one is that other cost saving initiatives will not help in gross margin, but it helps in EBITDA, the mix in fact last year versus this year is relatively lower compared to raw material that is what we are trying to say.

Nishant Vass: Okay thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. Participants in the question queue we may request you to please take your questions offline. I now hand the conference over to the management for closing comments.

Anant Goenka: Great, thank you all for your time and interest in CEAT and hope you all stay safe and look forward to catching up once again around the same time next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Elara Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.