“CEAT Limited Q3 FY-18 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY18 Earnings Conference Call of CEAT Limited hosted by Kotak 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone.

I now hand the conference over to Mr. Nishit Jalan from Kotak Securities Limited. Thank you and over to you, Mr. Jalan.

Nishit Jalan: Thank you, Keith. Good afternoon everyone. On behalf of Kotak Securities, I would like to welcome you all to 3Q FY18 Earnings Call of CEAT. From the management today we have Mr. Anant Goenka – Managing Director and Mr. Kumar Subbiah – The Chief Financial Officer of the company.

I would like to handover the floor to Mr. Anant for his opening remarks after which we will move on to the Q&A session. Over to you, Anant.

Anant Goenka: Thanks, Nishit. Good evening and a very warm welcome to CEAT's quarter 3 FY18 Earnings Call. I am Anant and I have with me our CFO – Kumar Subbiah here with me.

I will now take you through our performance. Our revenue from operations grew by 12% on a year-on-year basis and 2.5% on a quarter-to-quarter basis which stood at Rs. 1,550 crores for the quarter. Largely this growth can be attributed to our continued growth in the passenger segments and some bounce back in growth in the commercial categories as well.

Our replacement SBU continues to grow well with focus on passenger categories as we have been doing for the past few years. Growth in OEM segment was also strong with high growth rates in the two-wheeler LCV segment and we expect continued good growth in these segments for the rest of the year too.

Exports also has grown with passenger car radial tires being well accepted by our key international markets like Europe, Middle East etcetera. The political situation in LATAM countries like Brazil has improved leading to some steady flows of orders. On the other hand currently the valuation in countries like Egypt, Pakistan, and Afghanistan is having some adverse effect in exports to those countries.

On the raw material front prices have come down slightly versus quarter 2 FY18. I will now share a few highlights gone by for the quarter. I am happy to share that CEAT has associated with one of the most prolific all-rounder women cricketer Harmanpreet Kaur. This bat endorsement deal makes Harmanpreet a valuable addition to the team. CEAT which already has the likes of Rohit Sharma, Ajinkya Rahane and Ishan Kishan on board.

On the product front we launched our premium motorcycle radial tires which we call as the "Zoom Rad X1" at India Bike Week in November 2017. The Zoom Rad X1 provides high performance up to speeds of 210 kilometers per hour for premium bikes in 200cc to 400cc range. On the OEM front we also launched the CEAT Zoom D tyres which are part of the newly launched flagship scooter model by Honda Motorcycle & Scooter India which is the Honda Grazia vehicle. And key features of this tyre is the ability to provide high speed stability, better handling and superior grip.

Some other activities. We associated with Mahindra Adventures for Northeast and Bhutan expeditions covering over 2,600 kilometers during these trips.

With these updates for the quarter, I will now handover the call to our CFO – Kumar.

Kumar Subbiah: Thank you, Anant. Good evening, ladies and gentlemen. I am happy to present the key financials for the quarter. Our quarter 3 full year 2018 consolidated revenue from operations grew by about 3.4% quarter-on-quarter and 12.6% year-on-year driven by strong volume growth.

It stood at Rs. 1,574 crores versus Rs. 1,523 crores in quarter 2 and Rs. 1,398 crores in quarter 3 of last year. Our consolidated margins stood at 41.8% for quarter 3. It has expanded by about 240 basis points sequentially and by about 50 basis points over the same quarter last year.

Our other expenses increased by 14.2% broadly due to higher advertisement spent and expenses relating to additional volumes that we produced during the quarter. Our consolidated EBITDA stood at Rs. 195 crores in quarter 3 full year 2018 versus Rs. 181 crores in quarter 2 of the current year and Rs. 158 crores of the same quarter last year. The EBITDA margin stood at 12.4% about 40 basis points improvement over the previous quarter.

We continued our focus on working capital to unlock cash and that helped to generate about Rs. 150 crores during the quarter. We used this cash to prepay high cost loans to the tune of about Rs. 150 crores and also the cash from operations helped us to reduce our short term borrowings.

Our overall debt came down by about Rs. 220 crores as of end December versus as of end September which is from Rs. 1,020 crores to about Rs. 800 crores. We are also happy to inform you that rating agency CARE has reaffirmed the credit rating of AA and A1 Plus with stable outlook for the next 12 months. So our debt equity ratio consequent to prepayment of debt has come down from around 0.4% to around 0.3% as of end December.

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

Moderator: Thank you very much. We will now begin the question-and-answer session.

We have the first question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: So Anant, my first question pertains to volume growth performance during the quarter. So as we understand our closest competitor MRF has grown at about 15% year-on-year in terms of volume growth. However our growth was restricted at 7% to 8%, so have we seen any sort of market share loss in any of the segments during the quarter, if you could help us understand that?

Anant Goenka: I think for us what happened is that we continue to grow well in the two, three wheeler segment. We grew at over double digit categories in two three wheeler as well as the car categories. Our focus areas have seen good growth. I think one that the industry possibly faced was with anti-dumping duty for Chinese buyers coming in, in August September earlier this year. Especially commercial volumes would have gone up.

At this point largely utilized on our commercial capacity so our radial capacity was pretty limited. We are fully utilized at that level. Even our bias capacity which was underutilized is now fully utilized. So lastly we are seeing that on the commercial side has picked up higher than the passenger side possibly in the last quarter that we have had some capacity. Two wheeler and passenger car has been pretty strong.

Nitesh Sharma: Could you help us with the replacement growth rate for two wheeler and passenger segment?

Anant Goenka: Approximately on average double-digit growth.

Nitesh Sharma: So would it like early teens or mid-teens?

Anant Goenka: You can look at it at double digit.

Nitesh Sharma: And have we seen any increase in aggression from MRF in the two wheeler segment of lately?

Anant Goenka: No, difficult to really comment on competitor's actions I think. I do not think across industry there has been any pricing action, so I would say largely on the two wheeler side we have seen overall good growth on the scooter side whereas motorcycle has seen some challenge with the level of growth that we were growing at has slowdown a little bit on the motorcycle side. But largely I would say otherwise things are quite okay.

There are no internal issues that we are having so I do not see any specific reason for having lost any market share or anything from the motor cycle or scooter front. However data is a little difficult to capture and therefore difficult to clearly say whether there has been a gain or loss in market share.

Nitesh Sharma: Okay, but otherwise no major increase in aggression by any of the players in terms of competitive intensity?

Anant Goenka: Not really, I think a few new players have got in, in the last say six to nine months besides that nothing like.

Nitesh Sharma: Okay great. And is the understanding correct that what you said the TBB is currently operating at 100% utilization that is what you highlighted?

Anant Goenka: Yes, close to 100% truck radial capacity.

Nitesh Sharma: So this started from December onwards or the entire quarter was 100%?

Anant Goenka: Approximately the entire quarter maybe from October-November or maybe from November I do not have that data, but largely I would say for the last two, three months on average they are fully utilized at least.

Nitesh Sharma: Coming to the margins we have seen a strong sequential improvement in gross margins. However that was not reflected in EBITDA. So I understand that there are some startup cost relating to the new OTR plant so could you help us understand what exactly led to the increase in other expenses during the quarter?

Anant Goenka: Our gross margin during the quarter moved up by about 40 basis points. And that is translated to EBITDA improvement also by 40 basis points. They are on 12% in the previous quarter. Last quarter was about 12% to 14%.

Nitesh Sharma: Sir I am talking about sequential improvement. If I look at quarter-on-quarter there has been a 240 odd bps improvement in gross margins?

Kumar Subbiah: No, see that is on account of other expenses have moved up largely due to advertisement cost and cost relating to production so indirect expenses relating to production it has moved up. And second is also Ambarnath factory was started in sometime in October so therefore slow ramp up of Ambarnath factory obviously had some impact on consolidated margins.

Nitesh Sharma: Okay, any additional cost because of Ambarnath factory startup?

Anant Goenka: So Ambarnath plant is anyways a small facility. The initial cost will be high with kind of a slow ramp up or slow capacity utilization initially so that cost impact will certainly be there.

It is a 40 tons day plant. If you start off at 5, say 7 slowly go up to 10, 20 however as you ramp up initially it will of course be loss making so that will incur.

Nitesh Sharma: Sure and what is the outlook on the raw material front for the next quarter, how much inch up are you looking at in terms of RM?

Anant Goenka: I think largely if you see rubber has been quite stable, in fact it has come down a little bit in the recent few weeks. On the other hand crude has really shot up close to $70 level. So I would say that if you look at a three month lag kind of time period I would say quarter 4 there may not be major fluctuation however it starts feeling the impact from quarter one onwards of some amount of raw material increase. I would say 50% of our raw material has gone up, 50% is stable or gone a little bit down. So that is how broadly I would kind of classify going forward in quarter 1. It may not be more than about a 5%, 6% increase in Quarter one.

Moderator: Thank you very much. We have the next question from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: The first question was regarding your volume growth again. I mean it had a low base of last year demonetization and we have seen the two wheeler industry OEM also grown in double digit. So I was just wondering in the replacement side I think the demonetization impact was a little higher.

So from a volume growth perspective if your overall volume growth is around that 7%, then which are the segments would have declined heavily was it a commercial vehicle where you also said that it has bounced back in Q3. So if you can just tell me you know highlight which are the segments which have been relatively much, much weaker to get a 7% kind of a volume growth?

Anant Goenka: I think last year the growth was actually a little bit misnomer because I would say that all the way till early December sale was pretty okay despite demonetization happening on November 9, I would say sales continued to be as per normal level and FY17 growth over FY16 for Quarter 3 would be at about 10% volume growth levels. So actually if you look at it from a growth perspective last year was not too much of a low base.

Secondly, if you look at category wise basis as I said areas where there has been slower growth is largely in categories we have not been focused on things like on the tractor side or the last mile category etcetera. But our focus areas are two wheeler passenger car has been good and as I said on the truck side things started to pick up in the later part of the quarter there has been growth but we have been a little bit limited from a capacity front.

Jay Kale: Okay so would you expect that the larger portion of the base effect was felt more in Q4 in the replacement market and hence you would expect a better Q4 in terms of volume growth?

Anant Goenka: Yeah, I would not want to predict on Q4 but I would rather say that at least in Quarter 3 we grew at over 10% year-on-year basis over Quarter 3 of the previous year. So in that effect actually the low base is not there. When you saw lot of say for example OEMs etcetera showing minus 20%, minus 10% for us tire sales grew at about 10%.

Jay Kale: And in terms of the OEM if you could just highlight has there been any market share movement from your OEM two-wheeler side because of new players entering or the share of business has been largely stable?

Anant Goenka: The share of business has been stable because even the new players who entered they announced capacities, by the time one announces capacity they come into effect, you have to get OEM approval, OEM approvals very often take a year, year-and-a-half two years' time etcetera. And very often when new people get in I guess it is natural for people to initially focus on the replacement segments because that is more profitable. So right now I do not see any impact on OEM sales by anyone. OEM sales continues to be strong.

Jay Kale: And in terms of the CAPEX if you can just highlight what would be the CAPEX for FY18 and FY19? Where does that earlier guidance stand?

Kumar Subbiah: Okay FY18 we are likely to incur about Rs. 450 crores to Rs. 500 crores is what is likely to happen. In the next year it could be in the range of Rs. 1,500 crores to Rs. 1,700 crores. That is the range.

Jay Kale: In FY19 it will be Rs. 1,500 crores if you can just repeat that? FY19 CAPEX okay I just missed FY19 CAPEX?

Kumar Subbiah: Maybe it will be in the range of Rs. 1,500 crores to Rs. 1,700 crores.

Moderator: Thank you very much. We have the next question from the line of Nishit Jalan from Kotak Securities Limited. Please go ahead.

Nishit Jalan: Have you increased your CAPEX guidance significantly because if I remember correctly we were talking about Rs. 1,000 crores in the last call. Is it that you are trying to get your capacity early because of constraint in certain segments that you have highlighted?

Kumar Subbiah: No see, if you look at the previous calls we had indicated a higher CAPEX for the current year and Rs. 700 crores to Rs. 800 crores is what I had indicated for current year and next year about Rs. 1,000 crores odd. That is what we had indicated. But this year we are likely to be in the range of Rs. 400 crores to Rs. 500 crores. So the Rs. 200 crores to Rs. 300 crores of this years is likely to move to the next year and balance is the next year.

Nishit Jalan: Sir, my second question is you mentioned that we have seen new players coming into the two wheeler segment. So what kind of pricing strategy are you seeing from those players because are they trying to basically keep lower prices and get volumes or that kind of pressure are you seeing in the market particularly from the newer players not from the incumbents?

Anant Goenka: No, we are not really seeing yet any impact because even if you look at the newer players in some cases it was an acquired capacity so there was no real increase in capacity. And we do not see much of a pricing game; relatively it is a branded product and the volumes being so low.

Today if there is somebody who is making 10% of what we are making in that kind of a situation we will not react to that kind of pricing decision made by that player. For us it will be more that if the top one or two players take pricing decisions we may then react. So it does not affect our pricing strategy.

Nishit Jalan: That I agree but are you seeing any such step being taken by smaller players?

Anant Goenka: No.

Nishit Jalan: Sir, we have gathered that there has been some pricing action in terms of increases in the commercial vehicle side from one or two big players. Just wanted to confirm have you taken any pricing action in commercial vehicle or any other segment because now we will gradually start to see RM pressure coming in from 1Q that you have highlighted?

Anant Goenka: No, we have not taken any pricing action.

Nishit Jalan: Sir, my last question is in the presentation you mentioned that our working capital has come down. So is there someone off related to that or basically what has changed? Have we changed our RM procurement policy in terms of keeping lower inventory or the debtor days have kind of come down, is there anything structural or there is some specific reason to that?

Kumar Subbiah: See there has been overall reduction in working capital. We focus on working capital right from the beginning of the year. We held little more inventory as of 31st March last year also because we bought more natural rubber from the local market. There has been all round improvement on stocks, receivables and creditors. So that is broadly and as far as last quarter was concerned it was a combination of inventory and the creditors.

Nishit Jalan: So that is sustainable in that sense?

Kumar Subbiah: It is sustainable at the current level, from now onwards we need to see whether we will be able to get that kind of a reduction.

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

Ashutosh Tiwari: Sir, you mentioned that in TBB you are operating at almost full utilization level. The same is the case with TBR also?

Anant Goenka: So I think more on the TBR side in fact we are operating at full capacity. TBB what happens is that suddenly when there is an increase or surge of demand it is sometimes difficult to meet the full capacity in a short period of time. So we are operating at near full capacity kind of a situation to whatever maximum we could have produced. So that ramp up sometimes takes time even of an underutilized plant.

There is still some scope of taking capacity up marginally, but these are all our final operational debottlenecking opportunities. You know we sell about a little bit over a lakh tyres so we are talking about say 5,000 tyres more. That kind of number opportunity that is there through kind of training or getting back some manpower to ramp up the plant.

Ashutosh Tiwari: Okay and when will our expansion come through the TBR expansion that we have planned?

Anant Goenka: In quarter 3 of next financial year. Quarter 3, October December quarter that is right.

Ashutosh Tiwari: Okay so that means that over next two, three quarters the volume growth in truck segment for us will be quite low?

Anant Goenka: Yes, growth wise there will be a little bit of constraint.

Ashutosh Tiwari: Okay and do you produce LCV tyres from the same line or?

Anant Goenka: Same situation.

Ashutosh Tiwari: Okay so almost 45% of our volumes sales basically we will have a lower growth over next two, three quarters?

Anant Goenka: Yes, on quarter-on-quarter it will not grow at a high level.

Ashutosh Tiwari: Okay and how was the progress on the four-wheeler side, I mean have we reached the full utilization level at Halol?

Anant Goenka: Both capacities at Halol, yes, so there is still a potential for further growth from the passenger car side. Utilization levels are good and we are happy with the ramp up that is happening. We are also growing well on the passenger, so there is growth opportunity of say another 20% at least 20% to 25% more opportunity for growth in the passenger and UV space.

Ashutosh Tiwari: Okay and then Nagpur how is the progress in terms of capacity right now?

Anant Goenka: Yeah Nagpur also capacity expansion is coming along well. We are happy with the progress as well as the OEM approvals that we are getting in Nagpur and there is further space for growth in Nagpur as well at this point in time.

Ashutosh Tiwari: But what level we are currently out of the 120 that we have planned?

Anant Goenka: Out of 120 we are close to about 50%, 60% capacity utilization levels today.

Ashutosh Tiwari: And sir, we already have gained quite a bit of market share in two wheelers in replacement and OEM also I think the market share is almost the same level as replacement. So do we think that now also there is scope for good amount of expansion in the market share or that will be tough to come by because other players are also trying to expand in two wheelers?

Anant Goenka: I think the pace of market share increase that we have grown in the last four, five years say from 10% to 15% to 30% that kind of growth of course I think is looking challenging. But on the market side market has been quite robust; two-wheeler growth has been good in the OEM side so that will reflect in the passenger side going forward.

In addition to that market share growth potential is there but of course maybe say from today somewhere around 26% to 30% levels today to going up to 35% that is certainly something that we are aiming for.

Ashutosh Tiwari: And sir, lastly on the specialty tyres plant how is the progress I mean how the customer travels and all going basically is and what is the volume that we are looking at say next year?

Anant Goenka: Yeah, so it is 40 tons per day plant. We had set up the plant sometime around June, July. There were delays with respect to consent to operate from the Maharashtra Government which we finally got around middle of October. Since then we have been ramping up and we are happy. The good thing is that the product testing has happened and the feedback from the products are excellent.

And therefore we are going to be going ahead with full speed ramp up as well as sales. For 40 tons per day I would say another six to eight months for close to full utilization. I think in the end it is a little bit about sales also picking up so from a production ability side, I think we will be able to produce that. Sales we have to still wait and watch because it is a new product, new market for us. So we will aim for reaching full capacity by end of the next financial year and look at a further expansion going forward as planned.

Moderator: Thank you very much. We have the next question from the line of Mr. Mayur Milak from India Nivesh Securities. Please go ahead.

Mayur Milak: Just wondering on your CAPEX plans. So at one point I was just looking so we are typically making an operational cash flow of about Rs. 800 odd crores and we are looking at a CAPEX of about Rs. 1,500 crores. So this gap of this Rs. 700 crores are we really looking at getting this money through debt or how does it go?

Anant Goenka: See the total CAPEX for the next year would be a combination of debt and equity. So to the extent of internal accruals we would certainly use it, that would be our priority number one. And balance would be funded through debt. And in few cases even during our negotiations even our vendors have agreed to provide a slightly longer credit period. So it will be a combination of all three.

Mayur Milak: Okay because I have heard you say that you have repaid debt in the current year to the tune of about Rs. 200 crores, is it?

Anant Goenka: Yeah in the current year we repaid about Rs. 230 crores. In the earlier quarter we had paid about Rs. 100 crores and the last quarter about Rs. 130 crores. So Rs. 230 crores.

Mayur Milak: So we have paid Rs. 230 crores in this year and then we are looking to pick up, so there will be a gap of about Rs. 600 crores which really needs to be addressed through debt and credit funding is what you are really saying because the best that we could probably generate out of operating activity is would be in the range of Rs. 800 crores to Rs. 900 odd crores?

Anant Goenka: Yeah, operation generation will be a little lower than what you indicated. But I agree with your point. We will have to fund it through debt the balance portion.

Moderator: Thank you very much. We have the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Anant, first question I have is a housekeeping one on the revenue mix that you generally share. So can you just share the revenue mix in terms of truck and business, two wheeler, three-wheeler LCV, car UV and that form that you share? It is not there in the presentation, I did not find in the presentation.

Anant Goenka: Yeah, we have taken a call to share it on a half yearly basis.

Chirag Shah: Okay so you are not willing to share it quarterly now?

Anant Goenka: Yeah but similar trend broadly coming along as per whatever we were doing.

Chirag Shah: Second question was on the CAPEX side again. So I see the press release where we have increased your five year CAPEX by approximately Rs. 700 crores. So can you just share some thoughts over there any thought on the passenger vehicle side?

Anant Goenka: Yeah that is on the PCR side. We feel that we have been growing pretty well. We are happy with our growth also with respect to future demands we see a need for further expansion larger than what we have planned. While the plant is not up we feel we need a larger plant and that is the basis on which we have kind of set up this new CAPEX approvals.

Chirag Shah: And again it will get strengthened in the sense the extended CAPEX versus earlier that we had is it because of this increase in capacity the new plant that you are setting up is much bigger in size than what we had early envisaged?

Anant Goenka: No, what we had planned is it would have happen in different phases. So generally you buy land for of course something which is much larger and it takes times over a period. Just to say Halol we acquired and started in 2008 and we are still expanding ten years later. That is how we have planned it. So to that extent it is just a phasing which we brought back a part of say a Phase 2 to Phase 1.

Chirag Shah: And one last question on the funding of this. So you have indicated that you have paid high cost debt. So what is the differential that you are looking at in terms of savings because you have paid Rs. 200 crores, Rs. 300 crores of debt and then you again borrow similar amount next year. So how big the differential will be, will it be 5%, 6% differential in terms of interest rate savings that you have?

Kumar Subbiah: No, it is not so large. First of all we generated cash from the operations and we also generated some cash through better working capital management. These loans we have a window opportunity to prepay two, three of them during the course of the last year and so therefore there were no immediate need for us to utilize that cash for CAPEX. So therefore we utilized the existing cash generated to prepay loan but the differential if you were to compare with short term versus long term maybe about 1.5%.

I am saying short term whatever opportunity available but if you were to compare with what we would be paying when we borrow later it may not it will be much less than that. It will be about half a percent approximately.

Chirag Shah: And one housekeeping question if I can squeeze in. Tax rate has gone up. So how should we look at that number? Is it because of lower other income or something like that or how should we look at that effective tax rate number, it is now almost 24% for us?

Kumar Subbiah: **O**kay see there are two things. One is that if you compare with last year the tax rate has gone up largely for two reasons. One is that deduction for R&D has come down from 200% to 150% under the Income Tax Act. Second one is that investment allowance that was available last year to the extent of 15% of investment is no longer there in the current year. If your comparison is current quarter versus last quarter then broadly on account of lower R&D expenses during the Quarter 3.

Chirag Shah: Okay that is prime reason. So 33% is the average tax rate that we should work with going ahead or it would be lower because of higher CAPEX and other things. So for next year 2019 what kind of tax rate that we should look at?

Kumar Subbiah: I think you should keep it around that level 32% to 33%. See we would be paying actual cash outflow would be lower because of the reasons that we have mentioned in terms of CAPEX. But the difference between 33% and whatever the actual tax paid is nothing but deferred tax. It is not a cash flow, but it is part of our P&L.

Moderator: Thank you very much. We have the next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: Just two questions. One is on the octroi and LBT part of it, which was a benefit that we are supposed to get post GST. Would it be possible to quantify it or any clarity on that?

Anant Goenka: I think that is something which has in a way gone away right now but it kind of gets up somewhere in the raw material prices. So difficult to quantify in that sense the quantum of benefit that comes in.

Niket Shah: But the benefit would have flowed in I mean post GST it would have obviously flowed in?

Anant Goenka: It will be part of raw material prices.

Niket Shah: The second one on the custom duty increase which happened yesterday on the crossply tyres from 10% to 15%. Does it significantly change the dynamics in the crossply part of the market specifically on the truck and bus part of the segment?

Anant Goenka: I think there was a custom duty increase on radial tyres, not crossply truck and bus, radial tyres**.**

Niket Shah: Okay I will just check with that again. I thought it was in crossply so it may be higher on that side?

Anant Goenka: I think that will certainly help in terms of making Chinese tyres a little bit or imported tyres a little bit more expensive. So to that extent there should be some benefit coming in. On the other hand there was also some increase in tax rates for imported smaterial. So that is an adverse impact that would have hit the industry or most importing industries.

Niket Shah: And the final question is on the debt side of it. What kind of peak that are you looking at in FY19 and do you think FY19 the debt should peak out and then it should kind of start coming down in FY20?

Kumar Subbiah: Okay, see as we stand today debt equity has come down from 0.4% to 0.3%. It could be in the range of 0.7% to 0.8% in the coming years. It entirely depends on what is the exact cash outflow, how much we are able to manage with vendors, what is our internal accrual but that could be the peak.

Niket Shah: So broadly just to get it to numbers format, safe to assume about anywhere in the range of Rs. 1,700 crores to Rs. 1,800 crores can be a peak debt number or is that calculation wrong?

Anant Goenka: No see, the next two years would see increase in debt because truck and bus radial tire plant would be commissioned in the coming years so by then large part of the CAPEX would be spent. The following year passenger cars radial investment would have been completed including whatever we had announced yesterday. So in my view I think the next year FY20 would be the year of peak debt and after that it will start coming down.

Niket Shah: And FY20 what kind of CAPEX numbers should one roughly work with; I mean it is too early but just a broad sense?

Kumar Subbiah: Okay, I will give you a sense approximately it will be in the range of Rs. 600 crores to Rs. 800 crores.

Moderator: Thank you very much. We have the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar: Sir, I just wanted to check on the raw material basket. What we have seen since on a year-on-year basis is definitely natural rubber seems to have come down but definitely the rubber chemicals prices and even the carbon black prices seems to have short up. So overall I wanted a perspective from say medium term perspective on your raw materials?

And secondly from Q1 you said there is going to be some kind of raw material pressure but I was wondering Q1 FY18 if I am right was the peak of rubber prices, right?

Anant Goenka: Yeah, true.

Pawan Kumar: So I just wanted your perspective on the whole raw material basket as a whole?

Anant Goenka: Yeah, as I shared with you natural rubber has been relatively benign at this point which means that the last phase one month's time and that will start hitting us in I mean that benefit will come in on the rubber side in quarter 1. On the other hand crude has gone up which is crude and crude derivative products are close to 45%, 50% of our total raw material basket. So in the end the increase in crude will have a higher adverse effect.

So net-net on a quarter-on-quarter basis, quarter 4 to quarter 1 or quarter 3 to quarter 1 we will see a jump up in raw material pricing. However if you compare quarter 1 FY18 to quarter 1 FY19 it will not see a jump. The year-on-year you will not see a jump but quarter-on-quarter there will be a jump.

Pawan Kumar: So should we am at right if I am saying if we had a 50% and 50% then broadly your raw material prices basket would see an increase in the range of 5% to 10%?

Anant Goenka: Approximately around a 5% kind of from quarter 4 to quarter 1 or quarter 3 to quarter 1 approximately.

Pawan Kumar: On a long term what is our expectation on rubber prices, do we expect them to broadly decline or increase or how do we see that natural rubber?

Anant Goenka: Very difficult to predict that.

Pawan Kumar: And regarding the CAPEX whatever we are indicating. Can you just broadly outline where we are investing?

Kumar Subbiah: It is a combination of three. The large portion would be bus radial plant at Halol and passenger car. These two will be large balance would be in some specialty and two-wheeler tyres.

Pawan Kumar: And should we see the full I mean at least a partial impact of Ambernath start reflecting in the numbers from next year FY19 I think may be 50% capacity utilization?

Kumar Subbiah: I think so. See it will have some adverse impact on consolidated results may be even for this quarter because initial quarters they will be reporting some losses. As the capacity ramps up you will see some impact in the quarter next year FY19.

Moderator: Thank you very much. We have the next question from the line of Gautam Trivedi from Nepean Capital. Please go ahead.

Gautam Trivedi: Quick question. First of all congratulations on the Ambernath plant. I wanted to understand on the OHT segment how much will be exports versus domestic and going forward on a three to five year view how big will this become in terms of percentage of revenues?

Anant Goenka: Yeah, so we will be exporting close to 100% from our OHT tyre. At least I am talking about the new Ambernath capacity. There are some port and mining tyres that we do sell in India. But that has been out of the past capacity that we have had. Going forward in the next three to five years we expect this capacity to go up from about 40 tons per day to 100 tons per day. The next expansion from 40 to 100 will happen over the course of this year and that will ramp up in another year after that time.

Moderator: Thank you very much. We have the next question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Sir, on the Ambernath plant so as we know one of our competitor's margins is very healthy in the OHT export he is present in. So should we expect similar kind of margins or what sort of number are you looking at as far as margin go for the OHT plant?

Anant Goenka: Yeah, I do not see any reason why we should not be substantially far away from where we are. So at a range level it should not be very different because the model of that particular plant is not so different. There can be some difference because of scale impact or a brand impact etcetera. But broadly should be range bound.

Nitesh Sharma: And in terms of markets is Europe our key focus market?

Anant Goenka: Europe and US.

Nitesh Sharma: And what would be the breakeven level for the Ambernath plant if you could help us?

Kumar Subbiah: See in terms of cash breakeven would be 50% of our current capacity or a little higher than 60% of our current capacity. And may be at full capacity it will breakeven at PBT level in the first phase.

Nitesh Sharma: At full utilization level?

Kumar Subbiah: Yeah, full means I am talking about phase 1, 40 tons?

Nitesh Sharma: So basically even at full utilization our margins will be very subdued as far as phase 1 goes?

Kumar Subbiah: In the initial one year and once it transact beyond 40 then we will start breaking, it will start in a rating positive cash as well as positive profit.

Moderator: Thank you very much. We have the next question from the line of Rohit T from Vallum Capital. Please go ahead.

Rohit T: Sir, we were talking about the expansion plan so I would like to know what would be the capacity breakup segment wise as of now and after expansion in the other one that you said about the radial tyres and crossply tyres.

Anant Goenka: So crossply will relatively remain of course we are not expanding much more in crossply except for the two-wheeler segment. So if you look approximately today we got about 30% radial and 60% crossply across category kind of breakup. This was of course reversed to approximately 60% radials, 30% crossply approximately at that kind of level because we will see more growth in the passenger car radial and truck radial capacity. And no growth in truck buyers but some growth coming in two-wheeler buyers. This is just an approximate number.

Rohit T: And my second question will be how much revenue are we expecting from the export market after expansion in the next one to two years?

Anant Goenka: No, that we have not really calculated as such. But I would say approximately 15% or so of our sales will continue to be exported.

Rohit T: With a better margins than the domestic margins?

Anant Goenka: No, we do not share that data.

Rohit T: That is fair enough. At the same I also want to ask one last question that you spoke about the debt to equity ratio. It could go up to 0.7% and 0.8%. So what debt to equity ratio we are comfortable with at max?

Anant Goenka: 1:1.

Moderator: Thank you very much. We have the next question from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

Deepak Jain: Sir, any one offs in other expenses? You have mentioned higher advertisement expenses so anything that can cool off in the subsequent quarters?

Kumar Subbiah: No, see basically if you look at other expenses there are broadly about two, three headings here. And power and fuel cost is under other expenses for us. Advertisement cost is.

Anant Goenka: No, any one off expenses?

Kumar Subbiah: There is no one off during the quarter. At the increased production activity level it will be at this level.

Deepak Jain: And can you share the demand outlook for this quarter given the buoyancy for the industry and what do you expect from FY19 in terms of volume?

Anant Goenka: No, again it is very difficult to predict. I would say one indicator is OEM growth over the last few years can be an indicator for how replacement growth will really work out. So I think we have been overall quite positive on the passenger car side growth. You have seen the big players like Maruti, Hyundai all growing pretty well. Also in the last four, five months the MHCV segment or commercial vehicle segment is beginning to pick up.

The impact of government tractions on GST, demonetization all that is also gone. So I am overall optimistic with respect to overall demand side opportunity for the auto and tyre industry. Now what kind of level, I would say it will be close to double digit level growth should be something we should expect from the industry.

Moderator: Thank you very much. Ladies and gentlemen, I now hand the conference over to the management for any closing comments.

Anant Goenka: Thank you very much for attending CEAT's call. Look forward to catching up once again same time next quarter.

Moderator: On behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.