Transcript

Conference Call of CEAT Limited

Event Date / Time	**:**	**3rd August 2011, 04:00 PM IST**
Event Duration	**:**	**58 min 48 sec**

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Ram, moderator for this conference. Welcome to the conference call of CEAT Limited. We have with us today Mr. Anant Goenka, Deputy Managing Director, CEAT Limited and Mr. Sunil Sapre, CFO CEAT Limited. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr. Rohan Korde of Anand Rathi. Over to you sir.

Rohan Korde: Thank you moderator and thank you to the management for sparing the time for this conference call. May I now first invite Mr. Anant Goenka to give his opening remarks.

Anant Goenka: Good afternoon and a very warm welcome to CEAT's quarterly investor call. I am Anant Goenka and I have with me our CEAT CFO, Mr. Sunil Sapre and thanks everyone for your interest in CEAT. I will take you through a little bit about our results for quarter 1 and a few highlights of the quarter. The company's net sales stood at 1073 crores for the quarter as against 772 crores in the first quarter of FY11 registering a growth of about 39%. On the other hand we made an operating loss of 59.26 crores as against an operating PBT of 20.9 crores in the corresponding quarter in the previous year. Our PBT to net sale margin was at negative 5.5% compared to +2.7% last year same time. On the raw material side, our raw material costs were higher by about 10% over Q4 of last year and 31% higher than Q1 of FY11. If we compare this quarter with the corresponding quarter of last year, we could only pass on about 17% of price increase with respect to the raw material price increase. We needed to take about a price increase of 21% or 22% so that was one major reason for our margins coming down. I will give you some idea on the revenue breakup of the various markets. The replacement market sales grew at about 22% at 795 crores, OE segment grew at about 83% and exports grew at about 109% at about 200 crores for the quarter. I will share with you some major reasons for our performance or lower margins in this quarter. One is of course our new plant in Halol we declared commercial production on March 25th. Our interest depreciation and other fixed overheads hit us while we were still ramping up. We have installed about 100-tonnes per day capacity as of now and we operated at about 35, 36 tonnes average production per day for the quarter and this of course will ramp up going forward. Another important reason is as I shared with you the gap between raw material cost and lower sales realization. This too dented our margins by about 2% to 3%. So about a 3% impact because of Halol and another 2% to 3% impact because of the lower sales realization with respect to raw material cost. We are seeing some sluggishness also in the replacement market. We find the economy

slowing down a little bit. We find also radialization taking place to a large extent and we have a large truck buyers capacity, so we find some pressure on selling truck buyers capacity as well. I will just give you a brief update on Halol plant. We produce around 400 truck bus radials per day and about 1800 PCR per day in Q1 and on the quality side, the field performance of both PCR as well as TBR which is truck-bus radials has been good, which was a big concern for us earlier on. The other expansion that we have been doing is that we have been increasing our outsourcing capacity in motor cycle and scooter tyres. That too has been expanding and growing pretty well. From about 2,50,000 tyre production per month, it has gone up to about 3,50,000 to 4,00,000 tyres and this will end at about 5,50,000 to 6,00,000 tyres towards the end of the year. Our operations in Sri Lanka continue to do pretty well with respect to Indian Industry. It clocked a net sale of about 79 crores, year-on-year growth of about 11% and PBT stood at about 4 crores. PBT to net sale margin was about 5.3% compared to 10.4% verses Q1 of last year. Let me give you a short brief of what's happening going forward. The first quarter of course has been very challenging for us. But going forward we can expect a substantial improvement from Q2 onwards. So Halol certainly will ramp up from 36 tonnes per day average this should clearly go up to about 60 tonnes per day covering a decent part of the interest depreciation and other costs. We took a good price increase in Q1. We took an increase of about 10% from April all the way until June. So in Q1 of course we didn't realize the entire 10% because a lot of the increase happened…some of it happened at the end of April, some end of May and some end of June. So the entire 10% price increase will come in from Q2 onwards. Third is rubber prices, they are beginning to stabilize or cool down a little bit. It reached of course to 240, 243 rupees per kg around March-April time. It has now come down to about 207 rupees per kg. On the other hand, other raw material prices have gone up so until Q1 I would say "yes raw material prices have gone up". But Q2 onwards we expect rubber to at least to stabilize around 200 to 220 rupee kind of levels. Raw material side we don't expect too much pressure going forward. Finally, we are looking at focusing on high value segments. We are looking at focusing on two-wheelers, PCR – passenger car radials and this improvement in product mix too will contribute to a certain extent in margin improvement. So, we expect certainly Q2 onwards to be substantially better than Q1 and hopefully a better performance than again from Q3 and Q4. So I think I will close at this and I invite any questions and would be happy to answer that for you. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from, Mr. Kartik Mehta from Sushil Finance.

Kartik Mehta: Hello…?

Anant Goenka: Yeah good evening Kartik.

Kartik Mehta: Good evening sir. My question is on the rubber pricing side. We have seen a correction in the rubber prices of late from say around 207 rupees and

you are saying that you are looking at stabilizing rubber at the current level; any specific reason behind this view as of now?

Anant Goenka: Well we see some slow downs in demands from China, so we are seeing the global prices of rubber has come down and therefore the Indian prices have certainly followed. There has been some changes in governing towards allowing 40,000 tonnes of rubber on a one-time basis at about 7.5% duty, is the second thing. The third is there a lot of feeling that there is some sluggishness in the economy, some global slowdown, the American debt risk existed etc. etc… So a lots of issues with respect to slow down in the economy overall which makes us feel that rubber overall is likely to stay range bound. Towards November, December generally tapping also goes up so generally rubber prices tend to come down. But on the other hand, we are seeing a first mobile sector also growing relatively better than other segments. We are seeing again a little bit of slow down out there. That's why we believe it will be range bound and unlikely to come down too much. It can come down to may be 195 or 200 but not too much more than that.

Kartik Mehta: Okay. According to you slow down in the demand is going to reduce the price or probably keep the price at this level not the supply side right?

Anant Goenka: No, supply side there is no real excess supply coming in unless there is some issue with respect to some flooding or something that happens or something abnormal from a rainfall side, then prices will go up but besides that there is nothing else from a supply side issue.

Kartik Mehta: If I am not wrong last year there was a flooding sort of situation in Thailand and that prompted an increase in the rubber prices suddenly. So this time if it does not happen and then the normal things go, then the supply would improve YOY?

Anant Goenka: That's right. Supply certainly will improve with respect to last year and this can lead to some cooling down. So if you look at general data from November – December onwards rubber prices tend to come down. Last year was the only exception. Based on that we can assume rubber prices will come down to a certain extent from November – December.

Kartik Mehta: Okay. Whatever plantation has been done in 2006-'07, you are looking at those to come on stream by 2011-'13?

Anant Goenka: It takes about 7 years or so. So whatever happens in 2005 or 2004 will come into effect in this year.

Kartik Mehta: Okay. So do you have any idea then how much would be coming and from which end of the world?

Anant Goenka: Well I don't have the exact data of how many tonnes of rubber further production, there is data that about 5% to 6% increase in rubber production is likely to happen but I don't have the exact number data in that sense.

Kartik Mehta: Okay in which year? In this year or next year?

Anant Goenka: In this year.

Kartik Mehta: In this year?

Anant Goenka: That's right.

Kartik Mehta: Okay and you said that other cost has gone up which would be…isn't it like, other costs like carbon black or other rubber which is a derivative of crude oil is offset the benefit of the lower rubber, natural rubber prices?

Anant Goenka: We had seen an increase in SBR synthetic butyl rubber and PBR butadiene rubber, carbon black…so all of these areas we have already seen a fair amount of price increase from Q4 to Q1. Those prices…say SBR went up by nearly 30%; carbon black went up by nearly about 15%. We don't see too much more increase happening. In fact it can cool down or be at current level depends a lot on how crude does.

Kartik Mehta: Okay. If you can throw some light on those products costing like you gave an idea on this natural rubber side, like what was the price earlier and it made a peak of what now and it is trading at what…so we can get an idea on that.

Anant Goenka: See these items…to give you a little bit of background on the tyre industry….these are smaller items so it might not make a lot of sense getting into too many details. If you look, natural rubber is about 50% of our raw material. If you look at synthetic rubber it is about 15% and synthetic rubber generally tends to either follow natural rubber prices or it tends to follow oil, crude prices. Between the two it kind of tends to follow. Carbon black is a pure derivative of oil so it is really a matter of how the flax index kind of moves and you can come up with your assumptions based on that. But these are relatively much smaller items with respect to natural rubber.

Kartik Mehta: Any inventory we are carrying of high cost rubber or…what is our status of inventory as of now?

Anant Goenka: Generally raw material we keep very low inventory. We operate on a more day to day kind of buying. We use about 300 tonnes per day of rubber and that is the average buying we do per day. It can go down to 200 some days or 100 etc. But on an average we do more day to day buying. We don't stock up too much on inventory unless we find situations between international and domestic prices there is a large gap, then we sometimes buy forward in the international market and we take advantage of that opportunity.

Kartik Mehta: So as of now we don't have any forward I guess?

Anant Goenka: We have a little bit of forward which can come in because international prices were at pretty low prices, at about 190, 195 rupees per kg. We bought some Indonesian rubber. So a little bit of that can come in. We have been doing that. So that has been coming in June, July, August and will come in say around until August or middle of September.

Kartik Mehta: Okay, so those low-price entry would benefit you in certain percent.

Anant Goenka: Yeah as we got some of the benefit also in the first quarter.

Kartik Mehta: Okay if you can just share your average rubber cost in this quarter?

Anant Goenka: Average rubber cost for Q1 approximately it was around…natural rubber would have been about between 225 to 230 rupees a kg…somewhere around that.

Kartik Mehta: Okay fine sir and on the interest front sir…if you can share your average cost of borrowing as of now since the rates have gone up…?

Anant Goenka: It is about 11-1/2% to 12%.

Kartik Mehta: Okay, last question from my side. On the demand side…how are you feeling in terms of demand scenario like many tyre players are going to come out with new capacity gradually in the next 1-1/2 to 2 years and even MNCs are also ramping up their capacities in India, be it Bridgestone or Michelin, so just wondering how the demand is going to shape up especially when the slow down is happening as of now, though the replacement market would be very robust because of the last week closures…

Anant Goenka: That's right, there is going to be pressure primarily on the truck-bus buyer segment as I said. There are two technologies…we have the bias technology and the new upcoming radial technology where everyone is now adding capacities. Because this radialization or conversion from buyers tyres to radial tyres, bias tyres is the older technology where already capacities exist among a lot of Indian players and that is where it is going to be a challenge to sell I believe. We are already seeing some pressures of selling in the truck bias segment we are seeing lower margins out there as well as pressure out there and that we expect to continue for a long time. So whoever is able to switch more aggressively from bias segment and get out of the truck bias segment we believe will be more successful.

Kartik Mehta: Okay so except for those truck and bus bias….

Anant Goenka: We are seeing a good demand on the non-truck side. So on the passenger car radial side, motor cycle side, jeep radials, farm tyres; specialty tyres…all are doing pretty well.

Kartik Mehta: I think I am done, thanks sir. Thanks a lot.

Anant Goenka: Okay thank you.

Moderator: Next question is from Ms. Naga Deepika from Capital Market.

Naga Deepika: Hello sir just wanted to get a view. What is the market share of the radial truck and bias segment particularly in the replacement market and going ahead it seems the prices are higher. How much would the prices of radial, truck and bus tyres have increased from the start of this year?

Anant Goenka: Our truck-bus radials constitute about 15% to 20% in terms of the overall radialization of the overall truck market. We expect this to go up substantially as more and more capacities come into the market. In another three years or so we expect this to go up by about another 20%...it can be somewhere between 40% to 50% in three years' time is what our estimate is. Generally, follows a typical S curve where the movement to about 60% to 70% is pretty quick and then it tapers down and by the time it reaches 85% - 90% it takes another 7, 8 years for that to happen.

Naga Deepika: Okay got it. How are you witnessing the subdued demand in the radial and bias tyres, truck and bus tyres….is it towards the replacement segment you are watching the subdued demand or is it from the OEMs itself?

Anant Goenka: Mostly from replacement segment. OEMs are pretty still although in the news we read that there is slow down in auto production etc. on site we are not seeing too much of an impact. First of all OEM is barely about 15% of our sale and which is divided among many customers. So we don't see too much of an issue with the OEM segment; more of a slow down in demand on the replacement segment.

Naga Deepika: Sir can I have the product wise revenues…you gave us the market wise breakup…replacement, OEM and export. Can I have the product wise breakup?

Anant Goenka: I can give you the product wise break up. From a…on a value basis, approximately truck bias would be about 50% of our sales, three wheelers is about 15% of our sales, passenger cars about 6% to 7% of our sales, LCVs about 10% - Light Commercial Vehicles and specialty tractor etc would be the remaining 15% or so.

Naga Deepika: Going ahead with the Halol project coming in, the PCR share would be going up?

Anant Goenka: That's right. That will go up substantially.

Naga Deepika: See when we see the natural rubber prices; they are softening from end of June or so. So do you feel the price increase the industry has taken around 10% in the quarter, like you took a 10% hike in the quarter, will this be sufficient to cover the margins in the coming quarters? I mean will the industry be able to hold on the prices even when the raw material prices are falling?

Anant Goenka: I think margins are under tremendous pressure, so certainly…it would not be our desire to reduce prices at this time until our margins reach sensible levels. This industry is facing a lot of pressure on the margins if you look at the other's performance that has come out. They are pretty low for the industry. So I don't see too much at least in our case we don't have any desire to…giving any discounts unless raw material prices come down substantially.

Naga Deepika: Okay. Just one more question. You said there was an increase in prices by 10%. Is it in the quarter till June? After that did the company take any price hikes after June?

Anant Goenka: Nothing after June.

Naga Deepika: So 10% overall in Q1 that was not still yet seen in the numbers right?

Anant Goenka: We took price increases in April, May and June.

Naga Deepika: How much will be that quantum?

Anant Goenka: Approximately say 2-1/2%, 3% in April, 2-1/2%, 3% in May and similarly in June some amount. So the entire 10% we did not realize that price increase in the first quarter. Impact will come in now in Q2. That is what we are saying. We might have experienced may be say 5% or 6% because we did it towards the end of each month which will now come in, in Q2.

Naga Deepika: Okay. And towards decreasing the bias tyres mix in the total mix of the company, what is your percentage of (inaudible) bias tyres products particularly in the T&B segment.

Anant Goenka: As we increase Halol production, we are expected to reach about 150 tonnes per day by about April or so next year, while that happens, the ratio of truck / bus buyers will come down…

Naga Deepika: No I was talking about the existing capacity.

Anant Goenka: Existing capacity we might look at some reduction of capacity. We are still under discussion on what to do about that. Now we are kind of waiting and watching with respect to how sales kind of ramps up. We just went through the summer months where demand generally is the highest. Monsoon times is when demand generally tends to come down. So we are still operating at nearly over 90% capacity utilization. So we have no desire right now to cut capacities at least. We don't need to cut capacities. Let's see how really the demand comes in maybe in about a couple of quarters and we will be able to take a better call on that.

Naga Deepika: Sir my last question. Can you just give us the prices of carbon black, NTCF and SBR in the quarter average prices for us?

Anant Goenka: Carbon black is somewhere between 65 to 70 rupees a kg or so would be the carbon black prices. Nylon tyre cord fabric would be somewhere around 280 to 300 rupees per kg. What else did you ask for, sorry?

Naga Deepika: SBR?

Anant Goenka: SBR would be somewhere between 170 – 180 rupees per kg or so in quarter 1.

Naga Deepika: Okay thanks a lot sir.

Moderator: Next question comes from Ajay Setia from Centrum Broking.

Ajay Setia: Hello…?

Anant Goenka: Yeah good evening Ajay.

Ajay Setia: Sir could you please tell us what was the tonnage sold for this quarter?

Anant Goenka: About 50,000 tonnes.

Ajay Setia: And sir what was the corresponding number in the first quarter last year?

Anant Goenka: About 20% volume growth.

Ajay Setia: And sir what is the CAPEX plan for this year and the next year?

Anant Goenka: CAPEX plan for this year would be primarily for upgrading some pending expenditures left for Halol and mainly to upgrade our own facility…the regular CAPEX that we spend on our machinery…about 150 crores or so would be the total CAPEX for the year.

Ajay Setia: For this year?

Anant Goenka: Yeah.

Ajay Setia: Sir what would be the value for the next year? Are there any plans?

Anant Goenka: We have not decided yet.

Ajay Setia: Sir on the capacity addition, what are the plans?

Anant Goenka: Capacity addition as of now nothing right now. We need to first ramp up our Halol production…we still have a long way to go out there. Increasing, as I said our motorcycle capacity which we are outsourcing. Besides that right now no major capacity expansion plans. First this has to reach its place then we can look at further expansion.

Ajay Setia: Okay and sir one more question on the price hike. As mentioned in the presentation also, what is the quantum of the price hike in the replacement?

Anant Goenka: About 10%.

Ajay Setia: Is it same for OEM and replacement?

Anant Goenka: OEM was a little less. OEM was around 5% or so. Exports also was about 10%.

Ajay Setia: Okay. Thanks a lot sir and all the best.

Moderator: Next question comes from Siddharth Bera from Emkay Global.

Siddharth Bera: Hello…? Thanks for taking my question.

Anant Goenka: Good evening Siddharth.

Siddharth Bera: Good evening sir and thanks for taking my question. Sir I just wanted to understand, like you just mentioned that you were focusing on high value segment for better EBITDA margin expansion from the next year onwards. What I wanted to understand was what would be the mix in the current quarter.

Anant Goenka: Current quarter I just shared with you most of the mix. Basically PCR is going to be the major area where our mix will go up. We are doing about 4% in passenger car radials. It can go up to about 14%, 15% of our total sales. The other is going to be motor cycles which is at about 15% or so or 13% that too will go up. That as I shared in figures is going to go from about 3,50,000 tyres right now that we are producing, this will go up to about 5,50,000 to 6,00,000. So these are the two particularly higher value items where our mix will improve substantially. The other is of course ply truck- bus radials but there is a little bit of pressure on margin in truck bus radials.

Chirag: Sir this is Chirag here. Just one more question I had. Are you seeing any kind of slow down in the replacement demand and do you foresee a risk where there could be some discounting or some price cut happening? There is an indication, to suggest that there is some kind of slow down that is happening in the replacement side.

Anant Goenka: That's right. As I shared with you, there is a little bit of slow down that we are seeing in the truck-bus bias segment particularly. So there I don't…can't say too much whether there would be discounting or not. It depends on what competition does, what are the competitive pressures etc. So I can't commit on discounting. We don't desire to do any discounting. But, there is particularly…only on the truck-bus bias segment. Partly it is the monsoon season where the demand is also the lowest. But yes, there is some slowdown that we are seeing.

Siddharth Bera: Sir one more thing I wanted to understand sir was that in your truck and bus bias plant what kind of capacity utilization you would be at right now?

Anant Goenka: Over 90%.

Siddharth Bera: And how has that been moving?

Anant Goenka: Until now it has been 100% all through. Even now it is somewhere between 95% and 100%.

Siddharth Bera: Okay. Is there any addition of capacity? Any de-bottlenecking that you have done? Nothing much over there right?

Anant Goenka: Yeah we added some little bit of capacity in our Nasik plant between…around November-December last year of 30 tonnes…which is a very small capacity addition which is a mix of light truck and truck. That is the minor addition that was done about eight months ago.

Siddharth Bera: Okay fair enough. So including the new capacity your truck and bus bias plant is at about 90% utilization? Great, thanks a lot this was helpful sir.

Anant Goenka: Next question comes from Paras Adenwala from Capital Portfolio Advisors.

Paras Adenwala: I am sorry I joined the call a little later, could you please give us the split between OEM, replacement and exports once again?

Anant Goenka: Yeah, replacement is at about 65%, OEM is at about 15%, and exports is at about 20% or 21%.

Paras Adenwala: So through the year do you expect this kind of mix to be maintained or changed?

Anant Goenka: Pretty much similar. I don't see too much of a change. Generally going forward there can be a little bit of change towards more OEM selling because in PCR – Passenger Car Radials, generally the mix is about 40% to OEM and 60% to replacement segment. So as that goes up, we can see a little bit more increase in OEM. But it won't take up more than a percentage or percentage and a half.

Paras Adenwala: Okay and you also gave us a split between your customer segments that is trucks, two-wheelers and passenger cars. Again through the year do you expect any change in the mix or that would largely be around the same levels?

Anant Goenka: Passenger car will go up substantially so that will go up to over 10% from about 6% or so…over about 13%, 14% or so it can go up to. And motor cycle is the other one that can go up from about 13% to about 16%, 17% at least.

Paras Adenwala: So which means the truck segment could slightly come down?

Anant Goenka: That's right.

Paras Adenwala: It is a little paradoxical you know, at a time when we are seeing increase in interest rates and all the news flashing negativity about the automobile sector, your outlook on the sector continues to be positive. So…

Anant Goenka: In the case of replacement segment, most of the impact comes in three years hence. So whatever happened about three years ago in the OEM segment, that impact is felt in the replacement segment at that time. So the replacement segment is looking pretty strong which is about 65% of our sales. On the other side exports to where margins are not too bad with respect to OE, somewhere in between replacement and OEM margins, that too continues to be strong. There we have grown by over 100%. So from both those sides, things are looking okay. OEM is where we are hearing that or continuously listening in the news that yes there has been a slow down out there, that impact could come in perhaps a little bit in Q3 or Q4 but nothing yet. And as I said we are very much divided. We don't have more than 10% or 12% of our sales to more than one customer.

Paras Adenwala: And finally could you give us some sense on your working capital requirements like what are they right now, what were they at the end of 31st of March.

Anant Goenka: Working capital requirement has kind of remained somewhere around…just a second. Our net working capital has gone up a little bit primarily because of our rubber prices going up and our total sales going up. That has gone up from about 550 crores or so to about 700 crores or so.

Paras Adenwala: So is it largely to the inventory or even receivables has moved up?

Anant Goenka: A very little bit both of them have gone up. But overall value has gone up substantially.

Paras Adenwala: No receivables in terms of number of days….

Anant Goenka: There has been about a 20% inflation in rubber prices overall, 20%, 30% etc. That has primarily led to the increase and of course our volume has gone up. So we have grown by about 40% or so. So, all of that has resulted in more. Otherwise we don't see too much of change in the number of days of inventory and number of days of receivable.

Paras Adenwala: Thank you very much.

Moderator: Next question comes from Mr. Subrath Diverti from ICRA Ltd.

Subrath Diverti: Good evening sir.

Anant Goenka: Yeah good evening.

Subrath Diverti: Sir my first question is regarding competition from China in the TBR segment. Like you said, the segment is growing at a very fast pace and till very recently not many Indian players had large capacities in this segment. So what kind of competition do you see? By what time do you think that imports would begin to slow down from China?

Anant Goenka: We don't see too much of an issue even now from China. So China there is an anti dumping duty on Truck Bus Radial. So there was a big amount of dumping or imports that were happening about a year and a half or two years ago; but now that has all slowed down as anti dumping duty has come in. Also in the case of TBR, you need a lot of re-treading, channels, you need warranty, service, after sales service. So all of that can be provided if you have a domestic set up which the Chinese don't have. We don't find that a major concern. For us much more competition are the various Indian domestic players etc. China is not a concern. I don't see that being a major concern going forward.

Subrath Diverti: Okay. Sir the second question is, can the existing T&B bias type facility be used for manufacturing any other kind of product? As in what will happen

when radicalization moves to 40%, 50% and these capacities can be they be utilized somewhere?

Anant Goenka: Very difficult. They can't be very efficiently utilized. You can downgrade some of it to produce light commercial vehicle, some of it can be used to produce certain smaller SKUs of OTR-type sizes, but not much. Most of it will not be able to be utilized. So at that time we will have to think of what needs to be done with that. So there can be a little bit of switching happening, but not more than say 10% or so.

Subrath Diverti: Okay. Then my last question is regarding demands from various segments like various OEMs have revised in the passenger car segment have revised their estimates to around 10%, 12%. Similarly for the T&B segment perhaps it would be around 8% to10%. So if you could give me an estimate for various segments into OEM and replacement separately about the demand, you expect for this year.

Anant Goenka: See I think from the OEM segment we are not seeing any issues in any segment right now. As I said, we are hearing of course that there is a slow down that they are experiencing. But in our case, we are a little bit underexposed with respect to competition towards OEM. Only about 15% of our sales goes to OEMs. We don't have even one customer buying more than 10%, 12% of our sales. So we don't have one customer buying more than 1-1/2% of our total purchases. In fact even if one guy de-grows or two people de-grow, it won't affect anything by more than say 1% or so. The overall impact on OEMs should not be too much and we are spread across many categories. So I don't see too much impact with OEM. With replacement, I think growth is looking to be good in the non-truck segment or still looking to be strong, even though we hear…

Subrath Diverti: Sir, in the passenger car segment for example what will be the demand from the replacement segment growth?

Anant Goenka: Growth there will be pretty strong. It can be over 15% to 20% growth out there even though car production is going down, that impact is felt in the replacement segment only two to three years' hence. Whatever growth happened two years ago, as I said will be felt right now in the replacement segment.

Subrath Diverti: Okay and two wheelers?

Anant Goenka: Similarly in two-wheelers. Two wheeler also the growth continues to be very strong. The rural India story continuing to be strong, people are moving up, buying first two wheelers, so there too….those are among the stronger growth segments.

Subrath Diverti: Sir was there a decline in demand in the T&B replacement segment last year and how is it in this year?

Anant Goenka: There was no Decline, even this year we are not seeing a decline but we are seeing a flattish kind of a situation out here.

Subrath Diverti: Almost 0%?

Anant Goenka: Yeah last year also nearly like a 0% on truck-bus bias…this year also we are seeing like a 0% kind of growth in truck-bus bias.

Subrath Diverti: Okay. So that means the bias segment…this is only the truck and bus bias you are saying?

Anant Goenka: That's right. It could be somewhere between 0% to 5% kind of growth, very minimal if at all. But there is no de-growth yet.

Subrath Diverti: Okay sir, that's all from my side. Thank you.

Moderator: Next question comes from Mr. Nikhil Deshpande from PINC Research.

Nikhil Deshpande: Good afternoon sir.

Anant Goenka: Good afternoon Nikhil.

Nikhil Deshpande: Sir I just wanted to know, what would be your total installed capacity at the moment?

Anant Goenka: About 510 tonnes I think.

Nikhil Deshpande: Sir what would be your bias outfit? Truck bias?

Anant Goenka: 510 is all bias. Halol has just come in; I have not included that in the 510 tonnes.

Nikhil Deshpande: Sir are you facing any pressures right…

Anant Goenka: Can I correct myself…? It is 410 tonnes of bias, 100 mt is at Halol out of which 36% is the capacity utilization.

Nikhil Deshpande: Okay. Sir my next question was are you facing any pressures in the market for bias tyres or how do we see…? Are there any discounts going on, on the bias side?

Anant Goenka: Yes we are seeing some pressure in selling bias tyres. Margins are not great. We are being able to sell whatever we are at very low margins or no kind of margin level, but there is no discounting that is happening at least.

Nikhil Deshpande: But is the base of price increases in radial or PCR, is it different from bias tyres?

Anant Goenka: Not this year. We have taken price increases across the board. Nearly equal price increases across all segments. But relatively, yes, margins are lower, in truck bus bias to other segment.

Nikhil Deshpande: Sir how much would be the over capacity for bias segment in the country as such? What would you estimate it at?

Anant Goenka: Very difficult to say what over capacity exists in the country because it depends. It is so dynamic, as I told you I can tell you more about CEAT that we are at about 95% capacity. That's our situation. I don't know what the others are producing at.

Nikhil Deshpande: Okay. That's all from my side, thank you.

Moderator: Next question comes from Paras Nagda from Enam Holdings.

Paras Nagda: Hello…?

Anant Goenka: Hi Paras.

Paras Nagda: Hi sir. I wanted to know if when the Halol plant is operating at say 100 TPD, what will be the split between the PCR, TBR and others of the 100 TPDs?

Anant Goenka: When we reach the full capacity of 150 tonnes per day, we will be at about 80 tonnes per day TBR and 70 tonnes per day PCR. When we are at 100 tonnes per day, I think the capacity increase in truck bus radial will be slightly higher so I don't have the exact numbers, but I would say maybe 65 tonnes per day might be truck bus radial and about 35 tonnes per day would be PCR. This is just an estimate. This is on what ramps up first, whether there are any issues on ramping up, one can ramp up faster slower etc. But this is just a rough figure.

Paras Nagda: Got it. Sir one more thing, since you are contemplating a price increase in August also, and what are your thoughts on it? Do you think any price increase can happen going forward? One or two or is it that June or July was the last one in the price increases which have happened?

Anant Goenka: I hope we can go in but I don't see that happening right now. Demand situation is looking to be a little weak now; primarily because of the seasonality factor. Generally whatever price increases we can do in the summer months when the demand is strong, usually it kind of stays at that unless raw material kind of shoots up. Raw material also on the other hand is kind of coming down. So I don't see too much opportunity for a price increase. At least there is no concrete thought of August price increase at all, but I don't see any much of an opportunity out there.

Paras Nagda: Got it. Sir, one more thing which I noticed, you have been…for the last one year you have been trying to enter the two-wheeler segment. What is the strategy for being successful in selling a two-wheeler tyre? Is it distribution? Is it brand? Is it combination of all? With very few players being there, could you share with me what is the strategy for being successful in selling a two-wheeler tyre?

Anant Goenka: That's going to be a little bit of a long answer but I think very briefly to tell you, I think brand plays a very important role and I would say certainly we have a good brand and among the certainly top two or three brands in the industry right now. That is I would say clearly the number one factor. Distribution and style of selling of course makes a difference because truck bus segment, sometimes you have lots of

selling towards the end of the month etc. This is more of consistent selling through the month. But brand as I said is number one in terms of importance.

Paras Nagda: Got it. And sir, a couple of house keeping questions. One, I wanted your debt on books, long-term working capital…

Anant Goenka: Debt is at about 1100 crores.

Paras Nagda: This also includes the working capital debt correct?

Anant Goenka: That's right.

Paras Nagda: One more data question is, I wanted the tyre tonnage for the March quarter because the first quarter we did close to 50,000. What was it say like Q4…?

Anant Goenka: I don't know if I have that data off hand. Maybe I can give it to you a little later.

Paras Nagda: Not a problem. Last question from my side was any update on the Ambernath plant, when are we starting, what is the time line, are we looking at it?

Anant Goenka: Basically we have just acquired some land out there. There has been no progress beyond that on that yet. Because our balance sheet is a little stretched, we don't want to invest anything right now until our performance gets a little better. After that we will take a call on how and when to go ahead with Ambernath.

Paras Nagda: Got it. Thanks a lot.

Moderator: Next question comes from Alok Deora from Sushil Finance.

Anant Goenka: Good evening Alok.

Alok Deora: Good evening. I just had a few questions. One was, I think sometime in Q4 we had procured low-cost raw material, natural rubber and the effect was going to be experienced in Q1. So has that come in?

Anant Goenka: We did buy a little bit of natural rubber just post Tsunami time, I guess you might be talking about that?

Alok Deora: Right.

Anant Goenka: Some of that has been used up between May, June, July kind of time period. It is small quantities, as and when it keeps coming in we are utilizing that.

Alok Deora: Okay and you said from March you have increased the price approximately by 10% during the quarter.

Anant Goenka: That's right.

Alok Deora: How much has the natural rubber prices gone up during that period? Like I think we had averaged at around 225 to 230 per kg. So how much increase is that from the March end period?

Anant Goenka: Natural rubber during the quarter has gone down. It was at 240 peak, now it is at about 206. So it has gradually gone down over time between that time period.

Alok Deora: Fine. Since I was just trying to get is like, since monsoon is anyway here and the demand is going to be slightly weak and rubber prices also have not really come down, so Q2 would also be a tough quarter for the company?

Anant Goenka: Well as I shared, there are a couple of main events that will happen in Q2 is one is Halol is going to ramp up, so certainly the interest depreciation impact that we felt in Q1 will be substantially reduced. Second big event is the price increase that we took in Q1 of which we only felt half of it in Q1, will all be realized in Q2. And raw material prices assuming would kind of be at similar levels. Those are two areas we expect some improvement in our margins.

Alok Deora: Right in terms of subsidiary performance I think we have done around 70 crores in that?

Anant Goenka: Is it the Sri Lanka you are talking about?

Alok Deora: Yeah.

Anant Goenka: That's right.

Alok Deora: And the margin also I think are around 10% at the PAT level?

Anant Goenka: No margins have come down a little bit. PBT is at about 5% right now.

Alok Deora: Okay. So what is our outlook there? There we are seeing some pressure coming in or is it like generally the Sri Lankan market we are able to generate higher margins when compared to the Indian markets.

Anant Goenka: That's right, so it is clearly higher; there is a 10% difference in margin if you see between India and Sri Lanka right now. But I think it will not make a major concern, I think it is going to go up over time as we take more and more price increases. There we have a strong market share of over 40%.

Alok Deora: In FY12 when can we expect to turn profitable since Q2 also looks slightly uncertain…this Halol capacity comes in and costs come down slightly? Are we going to turn profitable in Q2 or it would be slightly difficult at the EBITDA level?

Anant Goenka: I certainly think that our performance will improve substantially. I can't tell you exactly whether or not we will turn profitable. But once Halol ramps up first of all we will breakeven and then we will start making good money in Halol. Right now we are incurring a large loss. Because of Halol and because of the

ramp up element, so certainly that (not sure) should eventually turn into a decent profit towards the end as we reach our full capacities. That is a major change event. The other is as I shared again the price increase that will all have a positive impact. So I see a major change from Q2 itself whether we are comfortable or not is something let's see…the market and the industry overall…

Alok Deora: Just one last question. In Q2 when Halol ramps up and all the cost and everything comes down, for the full year what kind of base case margins can we expect? Because you know we have started the quarter with loss at the EBITDA level, its slightly difficult to focus how things would turn around. So if you could just give a base case picture for FY12 in terms of margins?

Anant Goenka: I can't give any guidance on exact numbers as in…I gave rough estimate that I shared with you that about 3% of the current impact is because of Halol. We should certainly neutralize and become positive towards the end of the year. The other thing I shared was the price increase. I think I will leave it to you to do the calculation. Price increase of about 10% that we took and I think raw material so to say remain the same or pull down a little bit, then there too margins will improve to a certain extent.

Alok Deora: Alright that would be all. Thank you so much and all the best.

Anant Goenka: Thanks a lot.

Moderator: Next question comes from Rupin Shah from BP Equities.

Rupin Shah: Good evening sir.

Anant Goenka: Good evening.

Rupin Shah: Sir what is the time line for achieving the whole plant capacity at Halol plant?

Anant Goenka: By around April of next year we should reach our full capacity of 150 tonnes per day.

Rupin Shah: And what would be the PCR and TBR mix?

Anant Goenka: 80 tonnes per day is TBR, 70 tonnes per day is passenger car radials.

Rupin Shah: Okay and sir what is the total rubber consumption during the quarter in metric tonnes?

Anant Goenka: Total rubber consumption for the quarter…if we have done about 50,000 tonnes…about 25,000 tonnes.

Rupin Shah: 25,000 tonnes sir?

Anant Goenka: That's right.

Rupin Shah: What is the existing capacity at Sri Lanka plant and what is the plan going forward for the capacity expansion?

Anant Goenka: 50 tonnes per day is the current capacity and we have a strong market share there. We will be feeding a little bit of our radial capacity perhaps. Some small increases here and there, because we have a strong market share out there, at already about 40% to 50% market share, we will be at current levels. A little bit of expansion we will do in radials in particular.

Rupin Shah: Any capacity there you can provide for the JV Company?

Anant Goenka: I can get back to you. I don't have those details with me now. You can give a call a little later and I will give you those details or I will let you know.

Rupin Shah: Okay and sir how is the competitive scenario in the Sri Lankan market?

Anant Goenka: We compete primarily with Imports there. There are no other manufacturers of tyres there. So we have the advantage of being the only manufacturer and we enjoy a large market share out there. So being the leader we have some advantage as well. But we are seeing of course there is competition of course from the Indian players. They all export from India as well as other South East Asian tyre manufacturers.

Rupin Shah: Okay and sir what is the debt position in that JV Company?

Anant Goenka: I can get back to you on the details; I don't have that with me. I don't have that off hand.

Anant Goenka: Okay sir. That's it from my side thank you.

Moderator: Next question comes from Sahil Shah from HSBC.

Sahil Shah: Good evening sir. I missed that number you said for the Sri Lankan capacity?

Anant Goenka: 50 tonnes per day.

Sahil Shah: 5-0?

Anant Goenka: Yeah.

Sahil Shah: Alright. On the other capacities you said we are at 410. Does this also include the outsourced capacity if there is any?

Anant Goenka: Excludes outsourced capacity.

Sahil Shah: It does?

Anant Goenka: No it does not.

Sahil Shah: How much would the outsourced capacity be?

Anant Goenka: About 140 tonnes per day.

Sahil Shah: Sorry I logged in a little late…what is the utilization at Halol right now?

Anant Goenka: At Halol we have installed a 100-tonne per day out of 150 tonnes per day; out of which average production was around 35 tonnes per day for the quarter 1. We have now gone up to about 50 tonnes per day as of the end of the quarter or around 50% utilization as on date around this time. And by the end of August or so we would have installed the remaining 50 tonnes.

Sahil Shah: Okay and how much is the estimated additional CAPEX at Halol now?

Anant Goenka: About 50 crores is about pending.

Sahil Shah: So we've done about 550 crores already?

Anant Goenka: We would have done about 650 crores until now.

Sahil Shah: Alright perfect, thank you so much.

Moderator: Next question comes from Jay Dev from Monarch Securities.

Dipti: Hello…?

Anant Goenka: Good evening.

Dipti: Good evening sir, it is Dipti from Nag Securities. I would just like to know what is the current debt in this quarter…net debt by the quarter end.

Anant Goenka: Debt is about 1100 crores.

Dipti: Okay sir and your interest cost?

Anant Goenka: About 12%, 11-1/2% to 12%.

Dipti: Okay sir, that's all from my side.

Moderator: Next question comes from Sejal Jhunjhunwala from Way 2 Wealth.

Sejal Jhunjhunwala: Hi Anant this is Sejal. Anant I just had a question. By 2012 or FY13 basically, out of our 800 TTD which we are targeting, how much do you expect radial to be?

Anant Goenka: As I shared with you, look at 410 plus about 150 which is our bias capacity which is say 560, and 150 of Halol. So really 150 is the major radials; at least out of 700 tonnes per day 150 at Halol which is mainly radials; so 150 upon 700.

Sejal Jhunjhunwala: Okay, thanks a lot Anant.

Moderator: Next question comes from Anshul Ranka from Dimensional Securities.

Anshul Ranka: Yeah good evening sir.

Anant Goenka: Good evening Anshul.

Anshul Ranka: I want to know something about the full year's capacity utilization for financial year '11-'12.

Anant Goenka: For which plant? Halol you are talking about or overall?

Anshul Ranka: Overall capacity. If you can bifurcate both.

Anant Goenka: If you are looking at Halol plant which is getting ramped up right now, as I said we will reach about our full capacity towards early next year by about April or so next year. So on an average we would utilize about 70 tonnes per day this year, about say 50% utilization on an average for the year for Halol. And for the remaining it would be between 90% and 100% capacity utilization.

Anshul Ranka: Okay. Sir any idea of hike in price happening in Q2?

Anant Goenka: We don't have any price increase in Q2. Most of the price increases were taken in Q1. We might have taken maybe ½% or something like that net-net but may be 1% here and there on particular sizes which might have a net effect of ½% all through.

Anshul Ranka: Sir any revenue growth target of the EBITDA margin?

Anant Goenka: As we have shared, revenue has grown by about 39% and we shared with you the PBT figures so that's where we are. Going forward I can't give you exact figures. But Halol will ramp up. The growth will continue to be there certainly.

Anshul Ranka: You have said that rubber prices have increased 31% year on year basis…

Anant Goenka: That's right.

Anshul Ranka: And you have taken price increase of 10%...

Anant Goenka: 17% on year on year basis. 10% is from Q4 to Q1, Q4 of last year.

Anshul Ranka: You have taken a price hike of 17%. How much of this 17% has reflected in quarter 1?

Anant Goenka: About 4% or 5% would have reflected in quarter one.

Anshul Ranka: Okay that's all from my side. Thank you.

Anant Goenka: No 4%, 5% we took in quarter one; I am not sure…not very clear what you are talking about. But from quarter 1 of last year we took continuous price increase to quarter 1 this year, so we took a particular price increase in quarter 1. So majority of it we would have felt; out of the 17% maybe about 12%, 13% upto the quarter 1.

Anshul Ranka: Okay thank you.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. Rohan Korde of Anand Rathi for closing comments.

Rohan Korde: Thanks a lot to the management for sparing their time for this conference call. Thank you sir and best of luck for the future.

Anant Goenka: Okay thanks a lot Rohan for organizing this.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.
