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Conference	63943087
Company	CEAT
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Operator:

Thank you for standing by and welcome to the conference call to announce the results of CEAT at CEAT Limited hosted by Enam Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised this call is being recorded today.

I would like to hand the conference over to Mr. Kashyap Pujara. Over to you, sir.

Mr. Kashyap Pujara:

Good evening everyone. It is a pleasure to have with us CEAT management for the conference call. From the management side we are represented by Mr. Anant Goenka who is the Deputy Managing Director, Mr. Sunil Sapre who is the Chief Financial Officer. We will begin the conference call with some remarks on the results and this will be followed by a Q&A session. I would like to hand over first to Mr. Sapre. Over to you, sir.

Mr. Sunil Sapre:

Pleasure to have this conference call. In fact the initial speech will be given by Mr. Anant Goenka, our Deputy Managing Director.

Mr. Anant Goenka:

This is Anant Goenka here, Deputy Managing Director, and with me I have Sunil Sapre. Good afternoon and very warm welcome to CEAT's first ever quarterly conference call.

CEAT announced its annual and Q4 results for FY11 today. Let me share with you some of the key indicators for the year.

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The company's net sales stood at Rs. 3469 crores for the year as against Rs. 2807 crores in FY10, registering a growth of 23.6%. The profit before tax was at Rs. 33.2 crores and was at just under 1% of net sales compared to Rs. 239 crores and 8.5% respectively in the previous year. This sharp decline was as you all must be aware due to an unprecedented increase in raw material cost during the year. Despite an 18% price increase during the year we could not offset the 37% increase in raw material cost.

I will now go on to talk about the financial details for the quarter ended March 31, 2011. Net sales stood at Rs. 978 crores for the quarter as against Rs. 773 crores in Q4 of FY10, a growth of 26.6%. We actually made an operating loss of 18 crores in this quarter as against a PBT of Rs. 21.46 crores in Q4 of FY10. Operating PBT to net sales stood at 1.8%(negative) compared to 2.8% in the corresponding quarter of the previous year.

I will give you some insights into the raw material cost increase from Q3 of FY11 to Q4 of FY11. During this quarter the raw material cost went up by about 11% and we managed to pass on a price hike of about 5% during the quarter, but this of course was not adequate.

I will talk to you a little bit about the auto industry. The auto sector continues to be growing very fast at about 25-30%. This has been led by primarily growth in commercial tyres growing at over 30% followed by the passenger car segment at about 25% or so, and two wheeler segment at about 27-28%.

In CEAT's case the sales revenue break up replacement market has grown at about 19.5%, OE segment has grown at about 60%, and exports has grown at about 30% from last year.

I will talk to you a little bit about the key initiatives that CEAT has taken over the year. So, while our margins are under pressure because of the input cost we have taken lots of initiatives over the year to keep us firmly on the growth track. I will share with you some of the key initiatives undertaken by the Company Last October we acquired the CEAT brand from Pirelli of Italy for 9 million Euro, that is about Rs. 55 crores, and this will enable us to export radial and cross ply tyres to the whole world under the CEAT brand name. Until now we owned the brand in about 9 countries and had the right the sell to about half the world, so we could not sell primarily to Europe and Latin America which now opens up for us. We were serving these markets under a secondary brand by the name of Altura where we can now start substituting or adding on the CEAT brand. The brand acquisition also allows us to outsourcer tyres from any country under the CEAT brand. So until now we could not outsource from say China or Vietnam or any other developing country in the CEAT brand name. CEAT is also an established brand name in Latin America and Europe and known as a European brand and therefore we will be able to command a premium in these markets.

Another significant development in FY11 is the commissioning of the Halol plant. We have set up a state of the art radial facility with a capacity of about 150 tons per day. This capacity will be fully installed by September 2011 and we declared commercial production on March 25 of FY11. Halol has many firsts to its credit. So, in terms of manpower deployment, power consumption, Halol is among the best in the industry, in fact it would be among the best plants in Asia. For the first time in India a tyre plant has employed even women on the shop floor. We have incurred a total expenditure of about Rs. 615 crores for the project and have a further commitment of Rs. 75 crores, this is inclusive of Rs. 30 crores for the R&D center. At our Nasik facility too during the year we invested around Rs. 30 crores to increase our capacity by about 35 tons per day from 165 tons per day to 200 tons per day. And it is not only in Halol and Nasik that we expanded capacities but even in Ace Tyres which is actually in outsourcing partner of us, we have expanded capacity from about 2.5 lakh tyres per month to about 5.5 lakh tyres, and we expect to reach full capacity by the end of FY12.

We also have a joint venture in Sri Lanka which is known as CEAT Kelani and that continues to do very well. It clocked a net sales of 309 crores in FY11 against 220 crores in the previous financial year, registering a growth of 29%. PBT stood at 31 crores with a PBT to net sales ratio of about 10%. Sri Lanka continues to be a good market with the war having there gotten over, the Jafna peninsula opening up and being the only manufacturers in the country we can pass on that price increase much more easily than we can in India.

Going forward we expect the next one or two quarters to continue to be challenging for the company. We believe rubber prices will continue to be high or at current levels for the next 3-4 months. On the other hand we expect Halol capacities to ramp up over time. Motorcycle volumes and other profitable item product volumes will go up, and we hope to take some price increases in the first quarter. So, all of this we believe will put us in track for a good second half performance for this financial year.

So, with this I think I would like to leave it to you to ask whatever questions you have and we would be happy to answer them for you.

Mr. Kashyap Pujara:

Operator, we can now open the floor for the Q&A.

Operator:

Certainly sir.

At this time, participants who wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

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Once again, participants who wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

First on line, we have Mr. Alok from Sushil Finance. You may go ahead sir.

Mr. Alok:

Hello.

Mr. Anant Goenka:

Good afternoon Alok.

Mr. Alok:

Good afternoon. I just had few questions; one was regarding the price rise, how much we have increased in the last quarter and how much price rise we are expecting in the next two quarters?

Mr. Anant Goenka:

Last quarter we took prices up by about 5%. This quarter we have taken a price increase in the end of April of about 4-5% as well, and we hope to take another price increase by the end of May early June, and to say how much but we would like to take something like 4-5% again first of June. After that it is very difficult to say because in the monsoon months generally tyre demand goes down so I don't think for the next 3-4 months after that it would be very easy to take a price increase, so generally we will take as much price increase as possible during the summer months when the demand is strong, of course if rubber goes up or down things could change.

Mr. Alok:

Okay, so just one more price increase this quarter and next quarter we haven't take the call yet?

Mr. Anant Goenka:

Yes, so two price increases in total this quarter.

Mr. Alok:

One has already happened.

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One has happened and one more.

Mr. Alok:

Alright, and regarding the Sri Lankan subsidiary what kind of PAT margins it had, because I think in FY10 it had around 10%.

Mr. Anant Goenka:

I think this time it will be somewhere around 7% or so, 7-8%. We see was at about 10%, PAT would be about 7.5.

Mr. Alok:

What would be the Sri Lankan market size for tyres?

Mr. Anant Goenka:

We have about a 40% of the market share in the Sri Lankan tyre market, it is about 35-40%, our turn over is about 300 crores net sales, so roughly about 1000 crores.

Mr. Alok:

Okay, and just any update you have on Ambernath regarding the progress and the shift which is happening there?

Mr. Anant Goenka:

Ambernath we have just acquired land, we have been allotted land from MIDC, we still have to take a call exactly on the product mix and what we want to manufacture out there. Once all of that and the project planning is complete, we will spend may be the next 6 months on doing some basic grading work and planning on exactly what to produce, then it would take another year and half after that for the basic civil structure to be ready, machinery to come in based on whatever we decide. So, I think for that to come would be at least 2 years from now.

Mr. Alok:

Okay, and regarding the Pirelli acquisition, like you know when we eventually start selling under the CEAT brand, so what kind of margin change can we expect because of that, or the margin would remain at similar levels?

6 - 6 -

To give you some context, export is about 20% of our sales, now what will happen is that volume wise we can expect some shift towards exports, in the end it is all about our capacity constraint, assuming that we are any ways going to be selling whatever capacity we have, in terms of volume growth there might not be any volume growth because we are using all our total capacity or we are assuming that we are utilizing all our capacities. Now, in terms of realization growth we can expect some kind of better realization than perhaps competitors, competitors means Indian tyre companies who are currently supplying in these regions, because you can say that okay we have this European tyre brand which is a established tyre brand etc., I think that would command about a 5-6% premium relative to an Indian tyre company pricing.

Mr. Alok:

Okay, alright, just one last question I had, like you know if things settle down in second half of FY12, then what kind of operating margins can we expect to achieve if second half is slightly better?

Mr. Anant Goenka:

We wouldn't be able to give you any guidance on this, but personally I think if rubber prices continue to do the same, we take price increases, Halol ramps up, product mix improves, all of these things taken together we will certainly go back into black, I mean if all of this happens as per our plan, Q2 or Q3 onwards, profit margins long-term tyre industry if I have to say at levels or sustainable levels, I would say something like 4% is a long term sustainable, which can go up of course like last year was 8.5%, this year now going into or this quarter was negative, so I would say a long term

Mr. Alok:

So this would be at the PBT level, right?

Mr. Anant Goenka:

Yes, that is right, at PBT level.

Mr. Alok:

Alright, thank you so much.

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Operator:

Thank you. Next question comes from Ms. Supriya from HSBC. You may go ahead madam.

Ms. Supriya:

Hello sir. Just wanted to check what were the rubber prices which we would have taken into account while reporting the quarter?

Mr. Anant Goenka:

Sorry, rubber prices we would have taken into account?

Ms. Supriya:

For the reported quarter.

Mr. Anant Goenka:

Rubber prices would be somewhere around Rs. 239-240 per kg.

Ms. Supriya:

What would have been in corresponding?

Mr. Anant Goenka:

Sorry, for Q1?

Ms. Supriya:

Yes.

Mr. Anant Goenka:

Corresponding last quarter it would be 65% lower; I know that the impact has been for itself has been 65% or so.

Ms. Supriya:

This is corresponding?

8 - 8 -

On the corresponding, that is right.

Ms. Supriya:

Okay, and in case of natural rubber?

Mr. Anant Goenka:

This is natural rubber only.

Ms. Supriya:

Sorry, in case of the synthetic rubber?

Mr. Anant Goenka:

Synthetic rubber is about 45%.

Ms. Supriya:

What was the price that you would have taken into account?

Mr. Anant Goenka:

Sorry?

Ms. Supriya:

What is the price which you would booked for the reported quarter?

Mr. Anant Goenka:

Pardon?

Ms. Supriya:

Reported quarter, what was the price in the March quarter?

Mr. Anant Goenka:

Price of natural rubber or?

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Ms. Supriya:

Synthetic rubber.

Mr. Anant Goenka:

I wouldn't have the synthetic rubber price, but generally it is about 10% or so lower than natural rubber, it is a norm, I wouldn't have the exact synthetic rubber that we have reported. Synthetic rubber is barely about 10% of our total raw material.

Ms. Supriya:

Okay, and what is your outlook going forward on the rubber?

Mr. Anant Goenka:

Next quarter I think rubber prices will continue to be at current levels, rubber production is at its lowest at this time, whereas in the summer months tyre demand or rubber demand is at its highest. So, I think in the next 3-4 months will be at current levels, from October onwards we can expect some cooling down in rubber, because that is when the tapping is at the highest level.

Ms. Supriya:

So you expect the next quarter will also to witness the pressurized margins?

Mr. Anant Goenka:

That is right, next quarter there will be some pressure on margins.

Ms. Supriya:

What is the likely estimate of yours?

Mr. Anant Goenka:

I cannot give you any guidance around that.

Ms. Supriya:

And how is the volume growth as far as the tyre is concerned?

10 - 10 -

Volume growth will be something like about 15-20% or so, basically with Halol plant coming in some amount of Nasik expansion and some increase in motorcycle capacity, something like 15-20% range.

Ms. Supriya:

And sir what would be our current year capex?

Mr. Anant Goenka:

Current year means FY11?

Ms. Supriya:

Right.

Mr. Sunil Sapre:

We have given the same in the balance sheet Rs. 280 crores has been spent on account of fixed assets in this year, FY11.

Ms. Supriya:

Sorry?

Mr. Sunil Sapre:

280 crores.

Ms. Supriya:

Okay. Thank you sir.

Operator:

Thank you. Next question comes from Mr. Aniket Mhatre from Standard Chartered. You may go ahead sir. Mr. Aniket?

Sir, no response from his line, shall we take the next question?

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Mr. Sunil Sapre:

Yes.

Operator:

Thank you. Next on line we have Ms. Disha Shah from Anvil Stock Broking. You may go ahead.

Ms. Disha Shah:

Hello.

Mr. Anant Goenka:

Yes good afternoon Disha.

Ms. Disha Shah:

Good afternoon. Can I know what is the replacement and OEM margins?

Mr. Anant Goenka:

Replacement margins are certainly higher than the OEM margins.

Ms. Disha Shah:

Can you give me the percentage?

Mr. Anant Goenka:

I will not be able to give you an exact percentage, but certainly replacement is higher, but if you look at I mean it keeps changing quarter on quarter based on raw material price changes, but certainly replacement would be the highest, export would be next, followed by OEM.

Ms. Disha Shah:

Okay, and how is the utilization and the plants have working in what utilization?

Mr. Anant Goenka:

Currently they are at about 100% utilization.

12 - 12 -

Ms. Disha Shah:

Alright, thank you sir.

Operator:

Thank you. Next question comes from Ms. Shushanta Bhattacharya from Intime Spectrum. You may go ahead.

Ms. Shushanta Bhattacharya:

Hello sir, I just wanted to know the break up of your replacement battery and OEMs?

Mr. Anant Goenka:

Replacement sales as a percentage?

Ms. Shushanta Bhattacharya:

Yes, as a percentage of total sales.

Mr. Anant Goenka:

About 65%.

Ms. Shushanta Bhattacharya:

Okay, and the rest is OEM.

Mr. Anant Goenka:

OEM is about 15%, export is about 20%.

Ms. Shushanta Bhattacharya:

Okay, and in OEM is it fair to assume that your commercial tyre is a better margin compared to passenger vehicles and two wheelers?

Mr. Anant Goenka:

It is the other way round actually.

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Ms. Shushanta Bhattacharya:

It is two wheelers have better margins?

Mr. Anant Goenka:

Two wheelers, passenger car radials etc. are all offering a higher margin, in the commercial segment to give you some insight there you have two technologies cross-ply or bias technology, and you have your radial technology which is the newer technology. In the truck segment currently India is about 15-20% radialized, this will go up to about 45-50% in the next 3-4 years. As that happens the truck bias segment which is the older truck technology, demand there is going to go down over time and margins therefore will get impressed because supply is going to be either consistent or there will be an oversupply in that sense. The margins of the non-truck segment we are finding it more than the truck segment, particularly the truck bias segment.

Ms. Shushanta Bhattacharya:

Okay. That is all sir, thank you.

Operator:

Thank you. Next question comes from Mr. Nikhil from Pinc Research. You may go ahead sir.

Mr. Nikhil:

Good afternoon sir.

Mr. Anant Goenka:

Good afternoon Nikhil.

Mr. Nikhil:

Sir, could you give what is your current capacities at the moment?

Mr. Anant Goenka:

A little bit over 500 tons per day, about something like 540 tons per day or so.

14 - 14 -

Mr. Nikhil:

Okay, and what would be the TBR capacity out of it?

Mr. Anant Goenka:

TBR we just declared commercial production on March 25.

Mr. Nikhil:

At Halol.

Mr. Anant Goenka:

We are just starting production out there.

Mr. Nikhil:

Okay, so what would be the ramp up? Now you said currently it is 150, after expansion what would be the final capacities?

Mr. Anant Goenka:

It would be after expansion 150 tons per day. TBR would be about 80 tons and PCR would be about 70 tons, that is passenger car radial, out of the 150 tons, that is after expansion, ramp up.

Mr. Nikhil:

Okay, that is all from my side. Thank you sir.

Operator:

Thank you. Next question comes from Mr. Chirag from Emkay Global. You may go ahead.

Mr. Chirag:

Good evening.

Mr. Anant Goenka:

Good evening Chirag.

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Mr. Chirag:

Sir, just a follow up, you said your current tonnage capacity is 545 tons per day, right?

Mr. Anant Goenka:

That is approximately.

Mr. Chirag:

Approximately yes, and the new capacity would be 150 tons per day of which 80 tons is TBR and the balance is PCR. When do you intent to reach this full utilization for this new plant?

Mr. Anant Goenka:

In about a year's time.

Mr. Chirag:

And also you made an interesting point that in the current market scenario the profitability is higher in the non bias segment.

Mr. Anant Goenka:

Yes, that is right.

Mr. Chirag:

Okay, even the replacement segment of MHCV is not as profitable as the other businesses?

Mr. Anant Goenka:

Non bias and then the non truck segment.

Mr. Chirag:

Even non truck segment, yes.

Mr. Anant Goenka:

So, truck is the lesser profitable segment we are finding.

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Mr. Chirag:

But that would be the case for OE as well as replacement business, both the businesses?

Mr. Anant Goenka:

That is right.

Mr. Chirag:

Any insight as to what is happening and why the scenario of this, because profitability I presume was pretty decent some time back?

Mr. Anant Goenka:

One is that of course the raw material price push that has come in, so we should ideally passed on that price increase if we wanted to maintain that margin, but what is happening is as I said this radialization is happening, so in passenger car radial etc. or passenger car segment the market is already 98-99% radialized. Now, in the truck segment we are now undergoing this phase where we are at about 15-20% radialized right now, and we need to go up to about 40-50% over time, 4 year's time, so as demand for truck bus radials goes up it will eat up into the truck bus bias segment, right. So, that is why, and truck bus bias capacities will continue to remain the same in the industry unless someone cuts their capacity or shuts down a plant. So, therefore supply is going to be the same, but demand is going to come down.

Mr. Chirag:

But are you seeing an oversupply scenario as of now in the MHCV, is that actually the case at the ground level?

Mr. Anant Goenka:

Yes there will be ..., over time it is going to slowly increase. We are saying that we are finding it difficult to pass on that price increase and it is going to be more and more difficult over time from a supply perspective.

Mr. Chirag:

Okay, fair enough. And second question is some housekeeping question, if you can share what was your average carbon black price and tyre cot price for the quarter?

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Mr. Sunil Sapre:

I might not have each of the details, carbon black, I can get back to you on that.

Mr. Chirag:

No problem. I just missed out that natural rubber average pricing for the.., that you indicated.

Mr. Anant Goenka:

Approximately Rs. 240 per kg.

Mr. Chirag:

Okay, and you are largely buying it from domestic market?

Mr. Anant Goenka:

That is right.

Mr. Chirag:

Okay great. And one last thing, is it possible for you to give your broad revenue mix, different segments, how much would be two wheelers, cars?

Mr. Anant Goenka:

Just to go back to your previous question, from domestic as well as international sources it depends on how the price parity moves, so as you have your international prices lower than domestic prices at that we import, there is a custom duty that exists right now, so in the end whatever the landed is lower we call on that. Last quarter we did most of our buying from domestic sources because international was higher or at the same price as domestic most of the year.

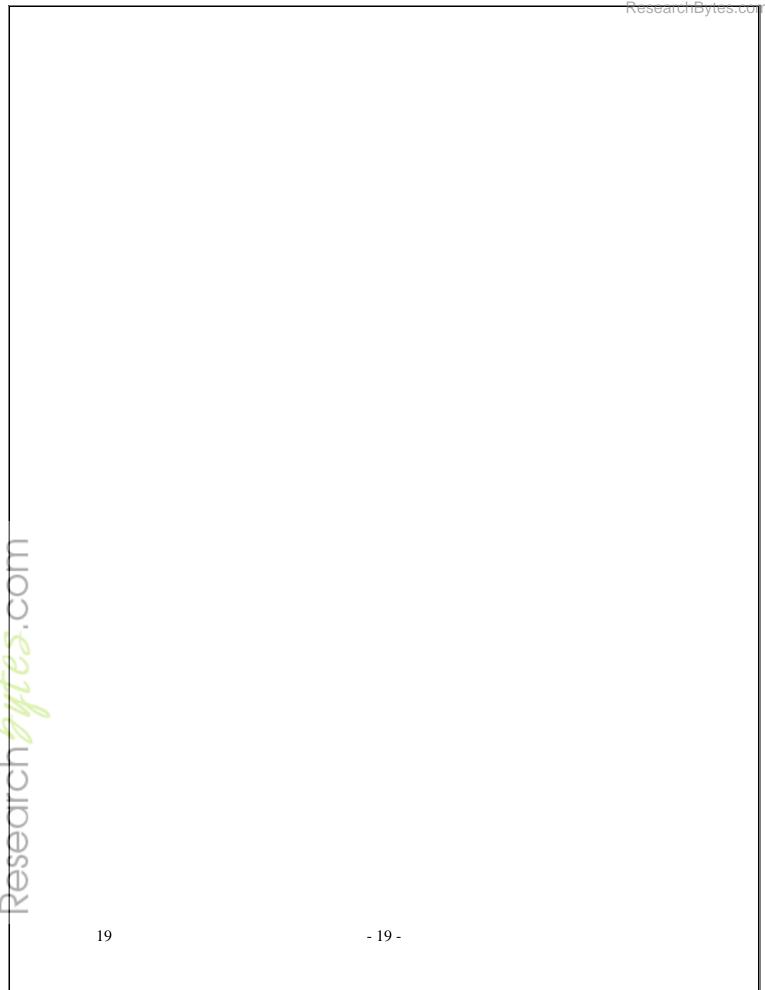
Mr. Chirag:

Okay, fair enough. So you are actively looking at that. Any price hikes that are expected, if you can shed some light over there?

Mr. Anant Goenka:

We did take a price hike of about 4 - 4.5% in the last 4-5 days time. We hope to take one more price increase by the end of the month or early June.

18 - 18 -



Mr. Chirag:

But what I also understand is that this price hikes are not able to sustain in the markets?

Mr. Anant Goenka:

Not really, we have taken the price increase, let us see if there is any impact on the demand on the other side, but whatever we have taken we have been able to sustain it, so I don't see that being an issue.

Mr. Chirag:

Okay, great. Thanks, I will come back for more questions.

Operator:

Thank you. Next question comes from Mr. Aniket Mhatre from Standard Chartered. You may go ahead sir.

Mr. Aniket Mhatre:

Hello.

Mr. Anant Goenka:

Yes, good evening Aniket.

Mr. Aniket Mhatre:

Good evening sir. First, could you share with us the tonnage sold for the quarter?

Mr. Anant Goenka:

I would say tonnage sold for the quarter would be approximately currently our capacity is somewhere around 510-520 tons per day, multiply that by 90 you will get the quarterly figure. We would have sold about 50,000 - 51,000 tons.

Mr. Aniket Mhatre:

Okay, sure. Sir, you indicated that your average natural rubber price is about Rs. 240 per kg for this quarter, what would be that the same for 3Q?

20 - 20 -

Sorry?

Mr. Aniket Mhatre:

For the last quarter, for the previous quarter, i.e. 3Q.

Mr. Anant Goenka:

Can you repeat again?

Mr. Aniket Mhatre:

You have indicated that your natural rubber price was about Rs. 240 per kg in this quarter, I just wanted to get the figure for 3Q, the third quarter.

Mr. Anant Goenka:

I think there was a mistake which I made actually, even I hope the others have not left, Rs. 240 was actually the exit price for the quarter, our average price would be somewhere around Rs. 215-220 per kg actually for natural rubber.

Mr. Aniket Mhatre:

Okay sure, and what would the same be for the third quarter?

Mr. Anant Goenka:

Third quarter our prices went up by about 11%.

Mr. Aniket Mhatre:

From 3Q to 4Q?

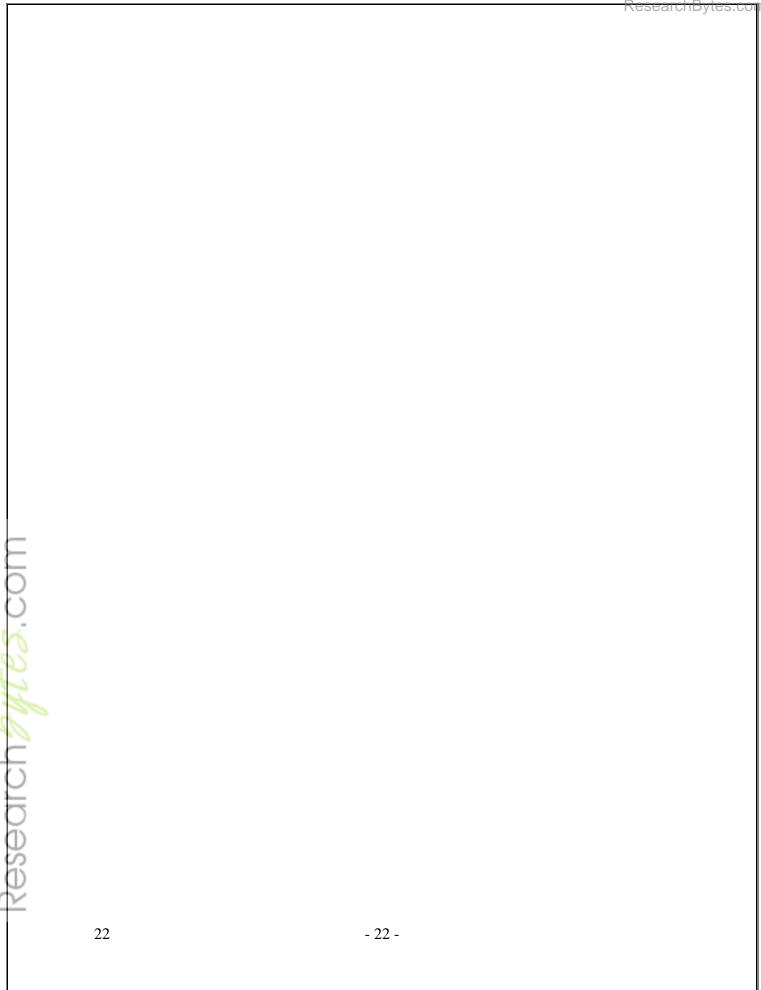
Mr. Anant Goenka:

Yes.

Mr. Aniket Mhatre:

Okay, got it. Sir, one question on margins, we have taken a 4-5% price increase, and if we were to assume that our natural rubber prices remained at the current levels, what would be our margin be right now?

21 - 21 -



What would our margin? I wouldn't have again, I cant give you the exact number on that, I think you will have to work out the exact calculation, but our raw material prices in Q1 of FY12, i.e. this current quarter would have also gone up. So, currently if you look at rubber prices are at about Rs. 240 per kg, what as I said we bought at about Rs. 220 or so per kg, so there has been some amount of rubber price impact that will come in which a lot of it will get absorbed in that price increase.

Mr. Aniket Mhatre:

Sure, okay. To put it differently sir, what kind of price increase we will need for this Rs. 240 per kg kind of a rubber price for us to get normal level of margins?

Mr. Anand Goenka:

I think according to me it is between 5-7%.

Mr. Aniket Mhatre:

5-7% more price increase.

Mr. Anant Goenka:

Should be okay, because our product mix is improving substantially by Q3. with Halol coming into effect we will be selling a lot more of more profitable items as well as with motorcycle tyres and all of that increasing, our product mix is improving substantially. Alongwith this product mix improvement, I think a 5% to 7% should be sufficient.

Mr. Aniket Mhatre:

Okay, got it. And sir, finally on the demand side from the OEs, are we seeing any slowdown particularly from the CV space of passenger car space?

Mr. Anant Goenka:

We are seeing a pretty good and robust demand from OE right now, we are not seeing any issues out there.

Mr. Aniket Mhatre:

Okay, so demand continues to be strong, no particular problem there. Okay sir, thanks a lot, and that is all from my end.

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Operator:

Thank you. Next on line we have Mr. Abhishek Bannerjee from Asian Market Securities. You may go ahead.

Mr. Abhishek Bannerjee:

Good evening sir. Sir, just one question, most of the questions have been answered, so what is your market share in PV and OEMs separately?

Mr. Anant Goenka:

Sorry, in which one?

Mr. Abhishek Bannerjee:

In passenger vehicles, commercial vehicles and OEMs, replacement market and OEMs?

Mr. Anant Goenka:

In passenger vehicles it is very small, it would be barely 2% or so. And which was the second segment you asked?

Mr. Abhishek Bannerjee:

Commercial vehicles.

Mr. Anant Goenka:

Commercial vehicles would be about 13%.

Mr. Abhishek Bannerjee:

And for the replacement market?

Mr. Anant Goenka:

This is for the replacement market I am giving you the figures. OEMs usually we don't calculate our share, we don't have data to get a share, but for us I can just give you a rough figure that we would be slightly lower from an OEM perspective because as a percentage of total sales we believe that our OEM exposure is slightly lower, so about 15% of our sales is OEM.

24 - 24 -

You can do an analysis of your other companies and see, but theirs might be a little bit higher than 15%, therefore the market share of ours in OEM might be a little lower.

Mr. Abhishek Bannerjee:

Okay. Sir, also you said that your average rubber price was around Rs. 170 for the third quarter, what would it be for the whole year?

Mr. Anant Goenka:

This is for natural rubber, and synthetic rubber would be about Rs. 170, would be about if you say natural rubber is slightly higher somewhere around Rs. 185 – 190 per kg for natural rubber itself.

Mr. Abhishek Bannerjee:

For the whole year?

Mr. Anant Goenka:

No, not for the whole year, for the quarter, for Q3.

Mr. Abhishek Bannerjee:

Okay, and for the whole year?

Mr. Anant Goenka:

For the whole year it would be about Rs. 175.

Mr. Abhishek Bannerjee:

Okay, that is all from my side, thank you.

Operator:

Thank you. Next question comes from Mr. Sanket Dhake from Span Capital. You may go ahead.

Mr. Sanket Dhake:

Hello sir. You said about Europe and Latin America opening up, what kind of market size or the industry sales you are looking at if you are foraying into it?

25 - 25 -

Currently our exports in the past has been about 600 crores or so for the year, we are looking at taking that up to about 900 - 1000 crores in the next year and a half or so time, so that is the kind of increase we expect to see in exports coming in from Europe, Latin America, but majority of it coming out of these two markets.

Mr. Sanket Dhake:

Okay, so entering into Europe will add up to around 400.

Mr. Anant Goenka:

Yes, about 200 crores in sales in the next year and year and a half, and beyond that of course very difficult to say the markets themselves are very large, we are looking at truck bus radial, passenger car radial production etc., until now being a bias tyre manufacturer and these continents being more radialized it was very difficult to export, more and more into radials, expand substantially.

Mr. Sanket Dhake:

And sir what kind of help you are getting after outsourcing opening, like you said you couldn't earlier outsourcer from some of the countries.

Mr. Anant Goenka:

Right now there is no specific advantage, but it is more strategic that in the longer term or whenever we would like to outsourcer opportunity comes up. So, if tomorrow there are certain types of tyres that we want to make or we want to make in say China and sell to Europe, we can look at those options. No specific benefits right now, or there is no specific plan as of now.

Mr. Sanket Dhake:

Okay. About Sri Lanka JV, what kind of growth you are looking forward, like maintaining the margins or what kind of the growth in revenues?

Mr. Anant Goenka:

Revenue growth in terms of tonnage or..., tonnage is going to be a good growth, any ways there is a fair amount of inflation happening, a good growth of 25% per annum.

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Mr. Sanket Dhake:

And will you be able to sustain the margins?

Mr. Anant Goenka:

Yes, margins looks like to be sustainable, perhaps anywhere between 8-11% PBT to net sales is sustainable.

Mr. Sanket Dhake:

Okay, thanks a lot sir.

Operator:

Thank you. Next in line we have Mr. Vishal from SBI MF. You may go ahead.

Mr. Vishal:

Hi sir.

Mr. Anant Goenka:

Yes, good evening Vishal.

Mr. Vishal:

Good evening sir. Sir, one thing is you have recently about this BI certification norms for imports, so how do you see this changing the import scenario, has it made any impact?

Mr. Anant Goenka:

BIS comes into effect from May 14 onwards, so it would not have had any impact yet, but in the future we think that certainly there can be some amount of entry barrier for imports.

Mr. Vishal:

Any idea sir how much of the imports which is coming into India as of now would not be certified and how much would be like eligible?

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I would not have a figure on that, I know that a lot of the suppliers are looking at getting certified, but certainly a lot of people would not be also certified. So, I know that it will certainly will have a positive impact, but difficult for me to quantify to you.

Mr. Vishal:

Okay. But even as of now would there be some suppliers who would be certified under Indian standards?

Mr. Anant Goenka:

I know that a bunch of players of looking at getting certified, I am not sure who has got the certification or not.

Mr. Vishal:

Okay sir, and sir in terms of the raw material cost scenario, like you said average for this quarter have been say around Rs. 215-220 and the exit rate is already at Rs. 240, so close to a 10% increase in RM cost itself, how much price increase is needed just to offset this impact?

Mr. Anant Goenka:

About 7% or so.

Mr. Vishal:

Of which we have already taken say a 4.5% price hike.

Mr. Anant Goenka:

Correct.

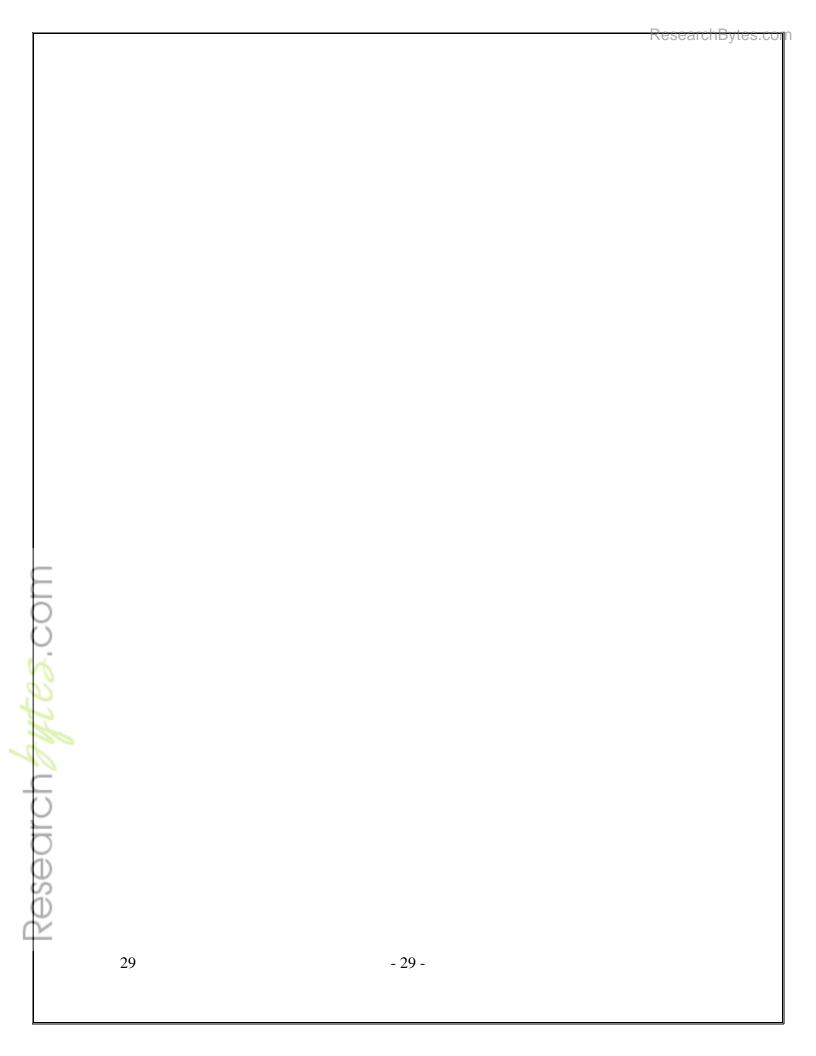
Mr. Vishal:

So, given the scenario we are already looking at a reduction in margins on a sequential basis in terms of quarterly numbers.

Mr. Anant Goenka:

A few things that will happen is that our product mix will go up substantially, because we will be selling more profitable items, and we hope to take one more price increase.

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Mr. Vishal:

Okay, so till the time we take that price increase the margins would be lower than say last quarter, except for the product mix. On a like to like, products will have lower margins, right?

Mr. Anant Goenka:

We will have lower margins if we don't take a price increase, and that could certainly happen.

Mr. Vishal:

Right, but how much time will it take to change the product mix, because you have just started selling CV radial, so how do you see that ramp up?

Mr. Anant Goenka:

You are right, so there will be some amount of..., it will take some time. Overall, we are looking at motorcycles, passenger car radial as well as truck bus radial product mix improvement, I mean all of these items will come into incremental sales. So, all of this would be more profitable, so they will slowly go up over time. I think the next one or two quarters can be challenging for the company, but I think after that things would get better, because price increases will come into effect, will have your product mix improving etc.

Mr. Vishal:

Okay, and sir in the CV radials, like when do you expect to reach full utilization levels in the CV radials, can it be like next 6 months you will be able to reach that level?

Mr. Anant Goenka:

I think it will take another 8-10 months.

Mr. Vishal:

Okay, and you know how would be the margin differential because there is a key point for us that will change our overall profile, so between say a CV bias and CV radial what can be the margin differential?

30 - 30 -

It should be about 15-20%, because the cost is kind of the same, raw material cost is the same, the interest, depreciation in a CV radial is higher because they are all new capacities, so raw material being the same this being a little bit higher and you are earning about 15-20% more, there should be about a 15% kind of a differential, say 15% minus 3-4% of interest, depreciation, so net-net about 10-11%, but that is what we believe in the longer term; currently, just to give you some insight, there is a fair amount of competition which has come in even in the truck bus radial segment, so the margins there have been under pressure and we are not seeing the kind of margins which I am sharing with you right now. So, they are under pressure, but we expect over time to go a little bit higher.

Mr. Vishal:

Okay, and right now what would those levels would be broadly?

Mr. Anant Goenka:

They would be perhaps about a 5% kind of a differential or so.

Mr. Vishal:

Okay, but sir given that almost all the players are setting up fresh green field capacities for CV radials also, it will be difficult to improve the margins in that segment because competition hereon in the new segment will only increase and since there will be a lot of new players they will try to push sales at lower prices or compete more fiercely.

Mr. Anant Goenka:

The conversion is going to happen even faster, that is what we believe, so conversion from bias in a demand side to radial is going to happen very fast as people try and use. All the capacities have really come in in the past 8-9 months, and what has happened is everyone has or most people have been working towards getting their tyres fitted therefore giving a fair amount of discount etc. to make sure that at least the initial tyres etc. happen, people start using their tyres and therefore demand catching on, so the pricing by the manufacturers in general have been at a lower level, but I think nobody can sustain these kind of or would like to sustain these kind of margins in truck bus radial especially when new capacities have been invested, so I think prices will go up over time once people try on these tyres, demand goes up, people will start experiencing the benefits, because the benefits are not only in mileage but fair amount in fuel efficiency improvement also. So, we believe pricing there will adjust over time.

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Mr. Vishal:

Okay, and sir just one more point, this price hikes which you have taken recently is it almost similar across all segments?

Mr. Anant Goenka:

No, it is more on the truck segment and less on the non-truck segment.

Mr. Vishal:

And OEM versus replacement.

Mr. Anant Goenka:

So this is taken in the replacement segment I am talking about, OEM also we are working towards some price increases, I would not have the exact numbers, but they would be at least somewhere around a similar range out here, so it could average out, some can be much higher and some can be higher lower, but on an average it would be somewhere around that 4-5% range.

Mr. Vishal:

But we have not got those as yet.

Mr. Anant Goenka:

We are still under negotiations with different OEMs etc. but very often they come in with retrospective effect etc. so it can be applicable from April 1st etc. depending on which particular OEM we are talking about.

Mr. Vishal:

Okay, and has the competition also taken a similar price hike?

Mr. Anant Goenka:

Yes we believe so something similar, may be a percentage here and there a little different, but they have also taken price increases.

Mr. Vishal:

Okay sir, that is all from my side. Thanks a lot sir.

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Operator:

Thank you. Certainly there are no further questions sir.

Mr. Kashyap Pujara:

Thank you so much everyone for participating in the conference call today, and special thanks to the management of CEAT for giving us the opportunity to host the call. Mr. Anant Goenka in case you have any further remarks to add, I will hand the floor to you.

Mr. Anant Goenka:

I have nothing else. Thanks a lot Kashyap for holding this conference call.

Mr. Kashyap Pujara:

Thank you so much. Operator, we can end the call.

Operator:

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating on Reliance conference bridge. You may all disconnect now.

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