



CEAT LIMITED

Management Discussion & Analysis

Quarter ended September` 2007

Summary of performance (Rs Crores)

Particulars	Q2FY08	Q2FY07	YOY
Net Sales	583.2	537.6	8.5%
Operating Profit	62.3	30.3	105.6%
Other Income	7.7	3.8	102.6%
Interest	13.8	15.9	
Depreciation	7.9	7.7	
PBT	40.6	6.7	505.9%
Provision for taxation	15.0	2.8	
PAT	25.5	3.8	571.1%

Key highlights – Q2 FY`08

- ☑ Ceat has recorded an impressive performance in Q2 FY`08. The Company's gross turnover for the quarter stood at Rs. 649 crs against Rs. 603 crs last year, up by 8%. The net profit for the quarter stood at Rs. 25.5 crs, up by 571 times as against Rs 3.8 crs during same quarter in the previous year
- ☑ Operating PBT for the quarter stood at Rs. 40.6 crs, showing a positive swing of around Rs. 34 crs over Q2 FY`07
- ☑ The Company's Operating margin stood at 10.7% compared to 5.6% in Q2` FY07 and 9.9% in Q1 FY`07
- ☑ The expansion in operating margin is mainly attributed to better Product Mix, strategic buying of Raw Materials and sustained efforts towards cost optimization and lower interest burden despite increase in interest rates and growth in business
- ☑ Exports during the quarter grew by 31% despite sharp Rupee appreciation

Sales performance

Rs Crores

Particulars	Q2 FY'08	Q2 FY'07	Change (%)
Gross Sales			
Replacement	392	320	23%
- OE	107	168	(36%)
- Domestic	499	488	2%
- Export	150	115	31%
Total	649	603	8%
Excise Duty	66	65	
Net Sales	583	538	8%

Production inputs

Particulars	Q2 FY'08	Q2 FY'07	Change (%)
Own Production (No. lac)			
- Truck tyres	4.87	4.57	7%
- Light truck tyres	1.88	2.15	(13%)
- OTR / Grader	0.15	0.10	46%
Total Procurement (Lac MT)			
- Own production	0.34	0.34	-
- Outsourcing	0.10	0.08	21%
- Total	0.44	0.42	4%
Conversion cost – Rs /Kg			
- Bhandup	17.04	15.80	
- Nasik	19.25	16.29	
- Total	17.89	15.99	

Key challenges & Future Issues

- The 6.5 acres of land at Bhandup is expected to be sold in Q4 FY` 08

- Natural rubber prices at Rs. 100 per kg and crude prices at US \$ 85 per barrel may lead to lower margins in Q3 FY` 08

- OTR and Truck capacity expansion is likely to be completed by Feb'08. Mixing expansion is likely to be completed by December '07

- ☑ Price hike will be difficult due to competitive pressures created by sluggish OE demand and cheap imports from China. However , industry hopes to marginally increase tyre prices in Nov'07

- ☑ The equity shareholders of the Company, at a meeting, held on July 27, 2007 have approved the Scheme of Arrangement between the Company and CHI Investments Ltd. Under this Scheme, the Investment Undertaking is proposed to be transferred to the said Company and will enable the Companies to optimize their independent performance by concentrating on their core competencies and enhance value for the shareholders, with requisite majority.

Cautionary statement

Statement in this " Management Discussion and Analysis" describing the company's objectives, projections, estimates, expectations or predictions may be " forward looking statements" within the meaning of applicable securities law and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include demand supply conditions, finished goods prices, availability and prices of raw materials, changes in the government regulations, tax regimes, economic development within India and the countries within which the company conducts business and other factors such as litigations and labour negotiations.