"CEAT Limited Q4 FY22 Post Results Conference Call"

May 6, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Post Results Conference Call of Ceat Ltd. hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Basudeb from ICICI Securities. Thank you and over to you, sir.

Basudeb: Thanks and a very good morning to all the participants. We are thankful to CEAT Management for allowing us to host the Q4 FY22 post results con-cal. We have with us the Management represented by Mr. Anant Goenka, Managing Director and Mr. Kumar Subbiah, Chief Financial Officer of CEAT.

So, over to you Anant Sir for your initial comments.

Anant Goenka: Thank you, Basudeb. Good morning everyone. A very warm welcome to CEAT's Q4 Conference Call and thank you all for your time. I am Anant Goenka and we have with us our CFO, Subbiah Kumar on the call with us. I hope all of you are all well and it's good to see that things are finally getting better from the virus perspective. As usual, we will start with some brief remarks from me and Kumar after which we will be happy to take some questions.

With respect to our Q4 FY22 Financial Performance:

On the demand side, the quarter started on a weak note in the midst of COVID wave 3. However, the wave subsided without a major setback on the health or economic front and normalcy started to return from February onwards. In the replacement market, the truck radial and utility vehicle segment started to see good traction while volumes in two-wheelers continue to remain soft largely because of weakness in the rural market and impact of COVID wave 3 that we experienced in January. Overall, replacement volumes were flattish on a quarter-on-quarter basis and declined at about 10% level over last year, which was on a very high base. We saw good momentum in OEM driven by truck and bus and PCUV registering a growth of about 12% over Q3 and about a moderate 3% decline over last year. Exports have been doing well for us and continued to show robust growth. Volumes increased by approximately 8% over Q3 and about 30% on a year-on-year basis. In terms of total volumes, we saw a growth of about 4% over Q3 and a minor drop of about 1.5% versus Q4 last year.

While overall, the demand scenario looks stable now, raw material inflation has continued to hurt the bottom line. Rubber stabilized during the quarter, however, crude prices shot up and remained at elevated levels of USD100 plus per barrel due to of the ongoing geopolitical situation. Crude derivatives are a significant portion of our raw material. RM basket cost increased over about 3% versus the guidance of about 1.5-2% as a result of these unexpected changes. The impact of crude prices may be more pronounced in the next quarter. As things stand today, we expect the raw material basket to inflate further by about 3-4% over Q4 levels. Due to higher inflation and relatively lower price increase, our gross margin contracted by about

0.6% over Q3 levels. We exercised strict cost control measures and continued to reduce our operating expenses. Further aided by higher volumes, our EBITDA margin for the quarter stood at about 7.2%, an increase of 1.7% versus Q3. We ended the quarter with a stand-alone PAT of about Rs. 13 crores versus a loss in the previous quarter. For the entire year FY22, we saw a healthy volume growth of about 9% despite a volatile and challenging macroeconomic environment. Replacement volume declined by about 5% on account of COVID waves 2 and 3 and weak rural sentiments.

At an annual level, farm and commercial categories were weak on a high base while PCUV saw good momentum. OEM volumes grew by about 18% on a year-on-year basis due to strong recovery in truck and bus. OEM demand in passenger segment also was healthy. Exports showed a stellar performance with about 50% volume growth versus last year. Exports will remain a key growth pillar for us in the medium term. We have been working on channel expansion in Europe over the last few years, which has started to yield good results. We have presence in the PCR and OHT segments and are shortly launching our truck radial tyres followed by two-wheeler tyres. Europe has contributed a significant share in our export growth this year and we expect the momentum to continue. We are also gearing up for introducing TBR and PCR in North America market in the coming quarter.

With respect to our CAPEX plans, we continue to rationalize as we had highlighted in the Q3 call. For FY22, the project CAPEX stood at Rs. 690 crores approximately versus an initial guidance of Rs. 800-1000 crores. We're looking at a CAPEX of about Rs. 750 crores for FY23. Priority will be in the off-highway tyre capacity addition and other debottlenecking and process improvement projects. OHT for us is growing well and we are confident of utilizing additional capacities coming up in Q2 FY23. Our association with OEMs continues to improve. Recently, Yezdi Adventure by Java and Volkswagen Virtus were launched on CEAT Tyres. We're working with all the major two-wheeler EV OEMs and keep a close watch on various EV developments.

In line with our vision for safer and smarter mobility, we launched tyres with Colour Tread Wear Indicator. This is the first of its kind product in India wherein customers will easily be able to identify when is the right time to change their tyres. We have also enhanced our four-wheeler range, our PCR four-wheeler range in the India market and have launched Sports Drive and Sports Drive SUV tyres for premium sedans and SUV’s like BMW, Audi, Mercedes, etc.

On the marketing side, we roped in Karthik Sivakumar for the SecuraDrive campaign in Tamil Nadu market. We continue to remain strategic timeout partners for the current IPL season. Our puncture-safe digital campaign continued to win accolades. This quarter, our campaign won ET Brand Equity Brand Disruption Award.

Going on to ESG, we are happy to highlight CEAT has been ranked number 1 in the rubber industry in India in terms of ESG risk framework by ESGRisk.ai. We continue to make progress in this journey. It is very-very important for us and we have achieved about 29% reduction in water consumption on a per metric ton basis during FY22 versus the previous year. We're taking up more renewable power projects, which will increase renewable power as a power source for

plants to about 40% level. Our diversity hirings have also increased significantly to about 33% of new hirings for FY22.

Going forward, we expect the demand environment for the auto and tyre industry to continue to improve as the economy recovers from the impact of the pandemic and with normalcy getting restored back. Meanwhile, we remain focused on navigating the cost headwinds while ensuring to capture the growth momentum and emerging opportunities. Besides, we will continue to stagger price increase depending on the market conditions with the aim to return to optimal margins over the next few quarters. As we overcome these short-term challenges, we are committed to remain nimble footed to capitalize on the opportunity to grow profitably as the demand improves. The organization has invested consistently in brand, in capacities, in markets and product development to create a path to secure leadership positions in PCR and two-wheeler while tapping into the high margin global OHT demand and strengthening our international footprint. We remain focused on managing costs, maintaining liquidity, and containing debt levels efficiently with an endeavor to consistently improve our return ratios to optimal levels.

With this I'd like to now handover the call to Kumar.

Kumar Subbiah: Thank you, Anant. Good morning ladies and gentlemen. Thank you for joining our Q4 FY22 Earnings Call. I'll share some further financial data points with you all post which we can enter Q&A session.

First, revenue:

Our consolidated net revenue for the quarter stood at Rs. 2,592 crores, a sequential growth of about 7%, which was largely driven by volume and year-on-year growth of about 13% which was driven by price realization improvement. Our full year consolidated revenue stood at Rs. 9,636 crores, a growth of about 23% over the previous financial year.

Coming to Gross Margins:

Raw material costs continued to rise and impact our gross margins, which stood at 33.5%, a sequential decline of about 46 bps. Our blended RM cost went up by about 3% versus Q3. We managed to take about 2% price increase during the quarter at different points in time in the replacement market. The increases were largely in commercial and farm categories. We also took price increases in exports and in OEM segments. However, the increases that we took during the quarter were not sufficient to cover our RM inflation, so our gross margin declined by about 46 bps, as I mentioned. Raw material scenario looked like stabilizing in January. However, with the geopolitical developments, we're once again seeing increases across inputs, especially those linked with crude and steel. As per our current situation, we expect our blended raw material cost to go up by about 3-4% in Q1 versus Q4, which means that we still need to take more price increases in the coming quarters and hope that the market situation is conducive for the same.

Coming to debt, CAPEX, and Working Capital:

Despite cost challenges, we're able to bring down our consolidated debt by about Rs. 164 crores in Q4 versus Q3. On account of improvement in our working capital management, our consolidated debt as on 31st March stood at Rs. 2,097 crores and our debt/EBITDA stood healthy at 2.83 and debt/equity at 0.64. Our project CAPEX was about Rs. 133 crores in Q4 and about Rs. 694 crores for the full year, and total CAPEX including our maintenance CAPEX for the quarter was about Rs. 209 crores and on full year basis about Rs. 953 crores. Our project CAPEX spend outlook, as Anant mentioned, for the next year is approximately Rs. 750 crores. Plus we will also spend maintenance CAPEX of about Rs. 150 to 175 crores. And that includes some investments to increase our renewable power too. We're keeping a close watch on our debt levels. We're still within our internal threshold. We'll try to further optimize on working capital in the coming quarters and prioritize our CAPEX in the areas of profit improvement and growth.

Coming to Operational Expenses:

We exercised tight control in our operating cost during the quarter leading to a reduction in our operating expenses by about Rs. 10 crores over the previous quarter despite higher revenue and volumes, and we also maintained our employee costs in Q4 at Q3 levels. Our consolidated EBITDA stood at Rs. 195 crores with a margin of 7.5%, an improvement of about 160 basis points over the previous quarter. Our depreciation in Q4 was at similar levels as that of Q3. Impact in case of increase in rates of 40 basis points will flow in the coming quarters and we expect the increase in repo rate impact to be lower in Q1.

Now, we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Can you please repeat the volume growth numbers in the replacement OEM and total in the quarter?

Anant Goenka: The volume growth numbers overall was at about -1% on a year-on-year basis.

Kumar Subbiah: On year-on-year basis, as Anant Mentioned, volume growth was flat and replacement declined and OEM marginally declined. Exports grew by about 29%. On value terms, replacement was flat. OEM was about 16.5% and exports were about 54%.

Ashutosh Tiwari: I think you mentioned that replacement declined by 10% YoY and there was a strong growth in OEM and exports. Is it correct? Can you provide some color segment wise and again quarter-on-quarter segment-wise how things are panning out?

Anant Goenka: We will not be able to provide segment-wise data, but overall as we shared that last year base effect was very high. We had a very strong last 2 quarters or 3 quarters of the last year whereas

this year, we had COVID wave 3 in a way coming in, which resulted in a relatively weak January and then March onwards, things started picking up.

Ashutosh Tiwari: So, are we seeing growth YoY from March-April, any color on that, in replacement, in different segments, two-wheelers, EV's and all, March-April, particularly?

Anant Goenka: Yes, so April-May-June onwards, things will be very strong because of low base effect. We had COVID wave 2 impact. So, year-on-year growth for this quarter will be very-very strong, maybe 30-40% plus kind of growth levels, in part, mix of inflation and a low base effect, but markets are looking relatively better. I'd say that CV clearly is picking up. Farm also is looking positive, which has had a very difficult year in the last year in terms of domestic farm demand. Chip shortage issue seems to be reducing over the months for the passenger vehicle segment, and two-wheeler with wedding season coming in, colleges opening up a little bit, some amount of low base effect, we expect it to come up. We have not seen that yet in the market, but I think CV and farm are the leaders for growth followed by PCUV and then two-wheeler. OEM and international business continue to do well going forth into Q1, Q2.

Ashutosh Tiwari: Lastly, you mentioned 3-4% increase in RM expected in Q1. What kind of price increase is taken in this quarter so far, April or maybe if you had taken something in March month.

Anant Goenka: So, say for the total of Q4, we took about a couple of percentage points in the commercial vehicle segment and the balance was just under 1 percentage point in the rest of the quarter, but in April, we have taken about over 2-2.5 percentage points in commercial vehicle, about a couple of percentage points in passenger car and some more in some of the small commercial vehicles another couple of percentage points. Going on to May also we are looking at about 2% price increase in certain categories, possibly commercial vehicle and two-wheeler segments. It has not happened yet, but we're looking at this in the next couple of weeks.

Ashutosh Tiwari: Okay, but nothing so far in two-wheeler over March-April?

Anant Goenka: No, two-wheeler has not seen any price increase.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Yes, continuing the question of price hikes, so what was the blended price hike taken in Q4 and was there any price hike in two-wheelers in Q4?

Anant Goenka: Between price and mix, we saw realization growing by about 3 percentage points.

Jinesh Gandhi: Ok, but any price action in two-wheeler category?

Anant Goenka: No, nothing on two-wheeler.

Jinesh Gandhi: Okay, and any reason why we are quite conservative in taking price hikes in two-wheelers? Just because of demand being weak or you are seeing competitive pressure?

Anant Goenka: I think competitive pressure as well, so we feel that our price gap with competition is quite high. We are the highest priced in the market, we're nearly 3-4 percentage points higher. Beyond this we feel that it can impact volume, so we've tried to take and now maybe in the month of May, again, we will look at taking some price increases. As I said, we are looking at about 2 percentage points and then we will see what happens to demand after that.

Jinesh Gandhi: With respect to, if I look at the broader P&L and the cost inflation, which we have seen, so what kind of price increase will we need to take on fourth quarter base to cover the entire cost inflation?

Anant Goenka: We're looking at about a 3-4 percentage raw material price increase in Q1 over Q4, and I shared about we're looking at a couple of percentage points price increase in the month of May. I think maybe another percentage would certainly any help, I think, to maintain similar margins between now and June. May price increase means it's not going to fully take into effect. April, as I shared about, we took about 2-2.5% price in about half our segments, which is commercial vehicle, a little bit in PCR, and two-wheeler we had not taken anything. OE and exports, there have been continuous price increases. So, I'd say maybe about a couple percentage points further from what we are planning in the month of May to maintain margins.

Jinesh Gandhi: So, that should be maintenance of margins over fourth quarter, which itself is quite subdued vis-à-vis our long-term targets.

Anant Goenka: That's right because if you look at the way crude has gone up in Q4 was quite high. In Q3, we were looking at crude at about USD 85-90-95. Now it went up to over USD 100-110 and all the purchases that we did in February-March will start coming in May-June-July kind of period. So, we are expecting a relatively higher raw material forecast. Hopefully, after this, it will stabilize.

Jinesh Gandhi: Secondly, a question on Sri Lanka given that we have reasonable operations there and we've been the only manufacturer there. What is the impact we're seeing of the ongoing economic crisis to our business there?

Anant Goenka: Yes, it's very unfortunate what is happening in Sri Lanka. There are challenges to the business. We've had enough raw material, inventory in Sri Lanka to help us guide through, until April things have continued to be okay, whether it is from a margin front or whether it is from running our factories and so on, but going on into May-June, certainly there can be an impact because there is no fuel in the country or literally very little fuel. People are not able to even come to office on a regular basis because of no fuel in their tanks. Distribution is becoming a challenge. Running our factories can become a challenge if there is no fuel to power up the boilers and so on. So, those are the kind of challenges we see and there can be a demand impact of about 20-25% in the near term at least maybe from May-June onwards, but more than anything, it is more of a human crisis where there's huge inflation. People's costs have gone up by 50-60% and they

are having various personal challenges, protests, thefts have gone up, so it's a difficult situation in Sri Lanka. In terms of direct impact to us, as share of our business is barely about 10% or less, maybe 7-8% of our revenues. So, to that extent it is not a major impact that will come in.

Kumar Subbiah: Yes, currency, I think importing raw materials for them and making payments to them is still a challenge and therefore supply security of raw materials is paramount for them. Other than that, Anant, everything else is covered.

Jinesh Gandhi: One last question to Kumar on Other Expenses in this quarter. So, we have seen a reasonable moderation in absolute Other Expenses despite increase in revenues. So, any one-off there or what is driving this sharp control on Other Expenses?

Kumar Subbiah: In case of Other Expenses, it's largely through cost controls. There's no specific one-off in Other Expenses as far as Q4 is concerned. In the previous quarter versus last Q4 because we had IPL in Q3, which was not there in Q4, so there was some favorable impact in Q4 versus Q3. Other than that, there is no major one-off. Some of the initiatives that we took to bring efficiencies in energy cost, bring improvements in our wastages, etc., I think the performance was better in Q4, but no major one-offs in Q4 except IPL related advertisement expense.

Moderator: Thank you. The next question is on from the line of Disha from Annual Capital. Please go ahead.

Disha: Just wanted to check that in terms of PCR what is the outlook? And one more thing, you mentioned that replacement market is down 10% year-on-year, but the volumes are up 13%. So, the value is up 13% so it is all led by price growth, right?

Anant Goenka: No, I think it's the other way round. Volumes are down, but revenues are up relatively.

Disha: So, it's all led by price?

Anant Goenka: That's right.

Disha: And quarter-on-quarter, can you throw some light on OEM replacement demand?

Kumar Subbiah: I just want to clarify the question. A little less than 10% decline was in replacement, but at overall level, year-on-year and Q4, volume was flat. So, it is not -10% in volume and +10% in revenue at the total level. Let me clarify, at the total level, volume was minor 1% decline at the total level. It's only in replacement where there was a decline and -1% in volume, but plus 12% in revenue growth. That's the way you've got to read it.

Disha: Okay, so the OEM in exports did better year-on-year. And the same thing on quarter-on-quarter?

Anant Goenka: So, quarter-on-quarter, replacement was flattish, maybe just down by 1% because of COVID wave 3 whereas OE exports saw relatively better growth, 10%+ and overall we were about 4% higher.

Disha: Okay, and going forward since we are investing so much in CAPEX, so at the end of FY23, our gross block would be how much and how much sales can we achieve from the investments we're putting in when it is using in full capacity?

Kumar Subbiah: Approximately our total assets in our books as of 31st March 2022 is Rs. 6,500 crores approximately. This includes capital work-in-progress, assets, so that is the level at which the total fixed assets are. As we had indicated, we will have a CAPEX of about Rs. 750 crores on projects and another Rs. 150-190 crores. So, therefore, gross block will go up to that extent.

Disha: At around Rs. 7,400 of growth block, since the demand is picking up, so what sales can we achieve from the current gross block?

Kumar Subbiah: I'll tell you what happened last year then maybe Anant would be able to respond the other one. Gross block moved up by about Rs. 900 crores in the year that went by, which is nothing but the total CAPEX that we incurred in FY22. Our revenue moved up by about a little over Rs. 1,800 crores in the current year FY22. Next year, as we indicated, the gross block would go up by Rs. 900 crores.

Anant Goenka: So, approximately on the revenue front, today our run-rate is at about Rs. 10,000 crores. We're doing about Rs. 2,500 crores per quarter or Rs. 2,400 crores per quarter. Clearly, we can see an increased potential of about 20% beyond where we are at an approximate level. We are adding OHT capacities. PCR and TBR we have additional capacity. If you include TBB, which is unlikely to see much growth then there is further potential even beyond that, but let's assume TBB will continue to decline or stay at best at similar levels.

Disha: Okay, and on the additional CAPEX, the incremental ROCE would be accretive, right? Since we are investing in OHT with a high margin and we are investing in PCR, the incremental ROCE would be better then?

Anant Goenka: Yes, of course.

Disha: Our fixed asset turnover ratio is around 2x overall, if we see.

Anant Goenka: Incremental will be a little bit on the lower side, but we have some amount that goes through outsourcing. So, at an overall level, therefore, it is higher if you look at the base.

Moderator: Thank you. The next question is from the line of Mr. Jalan from Axis Capital. Please go ahead.

Mr. Jalan: I have two questions. Firstly, on exports, we're seeing very-very good traction and similar feedback we're getting from some of your peers also. So, just wanted to understand China used to be really big in terms of exports to global markets, US and Europe, are we gaining share from China or what is happening because global demand is not growing at this pace that everybody can grow at such kind of a percentage numbers. Obviously, we are very small in the overall context, but just wanted to understand where is the gain coming for us in the global markets?

Anant Goenka: Yes, absolutely you are right. So, people are looking for a China Plus One strategy. There have been duties that have been imposed on Chinese tyres as early as 3-4 years ago by the US and that has some impact. There is strong demand for TBR in the US even though we don't supply TBR yet to the US or very small quantity. And in the EU, we have been strategically looking at that market over the last 4 or 5 years. So, we've develop the entire range of tyres. So, there, for example, in the passenger car segment, you need to have an entire range of van tyres, all-season tyres, winter tyres, SUV, premium SUV. So, there is a very large range of tyres that we've been developing over this time and that presents us with a very good opportunity for growth there. Also, historically for CEAT, it is a relatively known brand in Europe because of our past history of Italian origin between Spain and Italy, it is well known. So, we've also entered Germany, Poland and other markets over the course of the last 6 months. So, with that EU has been strong. In the next 2-3 months, we expect to launch our truck radial tyres in Europe that can present a good opportunity, and over the next year, we are developing tyres for the U.S., which is passenger car and truck radials that will again be a very large market, which has huge growth potential, but that will come on stream at least 10 to 12 months after from now. On the OHT side, there surprisingly has been a shortage of OHT tyres in the last year, year-and-a-half time and as a result, we've been able to capitalize on that too quite well with our Ambernath plant coming up, doing some debottlenecking in our Bhandup factory for bias farm tyres. These are the few actions that we've taken on exports.

Mr. Jalan: Just a followup. The anti-dumping duty you talked about is only for the truck tyres, right? Neither Europe, nor US has imposed anti-dumping duty on personal vehicles and our exports like you also highlighted is mostly passenger vehicles. So, are we actually gaining or basically what is the reason why China exports are kind of coming down and we are going up because on the pricing front nothing has changed and a related question is how are we positioning ourselves, what is our pricing in markets such as Europe? Are we benchmarking to the Chinese imports, which are coming in Europe or we are pricing compared to the other Indian brands?

Anant Goenka: So, in terms of product quality, we're benchmarking with the best. We're benchmarking with the leading MNCs. In terms of pricing, there are various levels of pricing where you talk about the ultra-premium and then you have the premium and budget brands, etc. So, within this we are pricing at a much more premium level than Chinese tyres, but I think it is more our strategic entry and I'd say Europe and US looking at a China Plus One strategy as relationships have been souring over time. Again, anti-dumping duties have been imposed. I believe it is across all tyres, but I can get back to you on that too. All means PCR and TBR tyres, but let me just validate that once again. So, people are moving away from China. There is a shortage of truck radial tyres clearly in the US and Europe as I said, it is our strategic entry that we're looking at and we positioned it very well that we offer great value to the customer because of pricing, which is I'd say at a kind of budget level, but offering a great value product.

Mr. Jalan: Just my second question is on off-highway. You highlighted also a part of it. Just wanted to understand now we have started to see a reward for the effort that we had put in in the last many years. So, just wanted to understand what is our capacity now? How much are we taking ahead? Where are we in terms of number of SKU's because I think that is very important over here.

And are we reasonably well present in both Europe and US now or it's largely again a Europe story as of now and US is something, which will play out over the next few years?

Anant Goenka: We've expanded our radial capacity in Ambernath which farm radial capacity from 50 tons to about 80 tons. That 80 tons will come on stream sometime by July-August after which we will be taking it up to about 100-105 tons per day for agricultural radial tyres. In addition to that we have bias tyre capacity of about 50-60 tons, which includes OTR tyres as well as farm bias tyres. So, that has always been there and then we're looking at another about 20 tons of debottlenecking in our bias factory. So, with that are approximate capacity can go up to close to 200 tons per day between bias and radial tyres in the course of about a year and a quarter from now. In terms of range, we've been continuously adding to our range of tyres. We cater to maybe about 80-85% of the total demand on the Agri side that is there. On number of SKU's, I can get back to you on the Agri side, I am not very sure of the number of SKU's that we have, but product development and as you said you are absolutely right in terms of range that we are looking at. I think overall we'll be having about 750+ SKU's in off-highway tyres.

Mr. Jalan: Regarding our presence in Europe and US, we are largely in Europe?

Anant Goenka: We're looking at both markets in terms of equal importance. So, we started in EU about 4 or 5 years ago and that's been growing very well. In US, we had an exclusive arrangement with one of our distributors there, which is what hampered our growth in the first 2-3 years' time. That came to an end about a year-and-a-half ago and now we can look at strong growth in the US going forward as we increase our distribution network.

Mr. Jalan: Just one small followup here. Again, we have a couple of examples from India who have established a very strong presence on off-highway, Balkrishna and Alliance Tyres. So, just wanted to understand how is our pricing compared to the brands of these 2 companies? Now, Alliance has obviously become Yokohama now, but let's say with BKT, just wanted to understand because this business could be very-very profitable if you are able to scale it up and if you are able to get the right pricing. So, just wanted to understand where are we in that journey of moving up in terms of pricing.

Anant Goenka: Right, what I understand is our pricing is about maybe 3-4% or at most about 5% below BKT. I think Alliance is also at similar price levels.

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

Siddhartha Bera: Our export mix was about 20% for the year. So, for the quarter, will it be a similar number and going ahead do we have any targets of about how much we want to take it in the next couple of years?

Anant Goenka: So, exports I think as a percentage would be about similar levels. It would have gone up from about 18-19% to now 20-21% kind of levels. So, it has gone up during the year. Over a year ago, it was at about closer to 15% kind of levels. So, there has been a clear shift in export as a

percentage. Going forward, we think that with replacement and OEM markets also looking a little bit more optimistic and this year was also a year where replacement was impacted with various COVID waves. We think at least in the next year, maybe export will remain at similar kind of levels, we see similar growth levels across categories.

Siddhartha Bera: Because replacement I think you indicated that it has not picked up yet meaningfully. If you leave apart the current quarter, which has the base impact, after that I think maybe a single digit growth we can look at replacement side, but you are saying that exports will also have a similar growth trajectory?

Anant Goenka: No, what I am saying is that in last year, our export was about 15-16%, that has moved to about 20-21% and as a result of base effect of this year, replacement has had a relatively weaker year, which will see high growth going forward, high growth relatively because of a low base effect. We had wave 2, we had wave 3, which was affected and exports relatively did not get affected. So, replacement on a relatively lower base should see higher growth in the coming year. As I said in the Q1 itself, we are looking at nearly 20-25% type of growth levels could happen. So, overall we are looking at good growth on the replacement side and I would guess that at a percentage level, exports will be maybe 22-23% kind of percentage of sales.

Siddhartha Bera: On this price hike clarification, so you said that about 2% price hike you are looking in May and even after that you will make a 2% price hike to maintain the margins at the Q4 levels, is it correct?

Anant Goenka: Yes, about 1-2%.

Siddhartha Bera: And lastly sir on the exports margin side, how to understand this business, will it be sort of meaningfully higher than what you have for the overall margins or if you can help us understand how to understand this part?

Anant Goenka: Yes, export margins have become higher than replacement margins. I'd say historically they have been at similar levels, but now they have increased because the competitiveness in the domestic market has been higher than the international markets and so we have been able to take price increases more easily in the international markets than domestic. So, it would be export followed by replacement followed by OEM in terms of three markets we serve.

Siddhartha Bera: So, correct to say that it will be in the double digit range?

Anant Goenka: I don't have that detail. It could be varying as well. At an EBIDTA level, yes, double digit.

Siddhartha Bera: Last one on the standalone gross and net debt, if you can highlight the numbers?

Kumar Subbiah: Gross debt would be Rs. 30 crores more, so about Rs. 2,127 crores and net is about Rs. 2,097 crores at consolidated levels.

Siddhartha Bera: And sir at standalone level if you have it?

Kumar Subbiah: Standalone is another Rs. 20 crores difference both sides, not much of a difference between the two.

Moderator: Thank you. The next question is from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Most of my questions have been answered, but just wanted to go back on your revenue mix. So, if I look on a full year basis, obviously replacement has come down substantially and truck and bus has also come down. Given that truck and bus had a very strong OEM year, so on a full year basis, you are suggesting that replacement came down quite sharply and would that be disproportionate on the bias side, if you can help us give some colour on that?

Anant Goenka: So, replacement did come down sharply on the bias side, but just to clarify OEM saw a sharp increase only in the last quarter particularly. So, OEM if you look at commercial vehicles even in Q3 was relatively weak and we expect CV growth to be strong going forward. So, OEM I'd say relative to all the markets we are quite optimistic about revival of CV segment in OEM, which we have seen in Q4 and going forward. On the replacement side also, there is a relatively better revival on the CV side. International, I would say largely across the board, there is equal kind of performance across categories with PCUV doing a little bit better for us. In terms of the mix going forward, I don't see a major shift in the mix versus Q4. It could be a couple of percentage points here and there, but as I said I think it would be not a major shift in terms of revenue mix. Kumar, anything you would like to add also here.

Kumar Subbiah: No, you covered it well. Obviously, our traction on OEM, truck and bus actually started only late in the year. So, therefore growth in the OEM side first 9 months didn't have any impact on us, but otherwise it is covered broadly.

Amyn Pirani: But it would be fair to say that given the activity levels are now improving, the truck and bus replacement should hopefully have a much better quarter and much better year going forward?

Kumar Subbiah: Yes.

Amyn Pirani: Secondly, obviously you have talked at length about the inflation that you are seeing on the raw material side and obviously that is a concern, but just wanted your thoughts on the inflation on other costs and how we should think about it and particularly are you seeing any impact from the current ongoing commentary around power shortage, power crisis, in terms of both availability as well as in terms of pricing going forward?

Anant Goenka: I will take the power front first. The power, we are not facing any issue in terms of availability of power at this point. As I shared, we moved a lot of our power to even renewable power that is helping us bring down our power cost. So, nothing to add here. I'll let Kumar take this if he has any other point. Your second question was on inflation. Inflationary impact, as I said, the fuel prices have gone up that is the indirect impact that is happening on supply chain cost and running of factory cost to a certain extent, but besides that no other inflation, I mean for us it is manpower cost, which is relatively inflating at a similar rate as the past and the balance is

electricity, power, fuel related costs. So, those that are crude impacted are getting affected and then of course as I said the distribution supply chain. Kumar, would you like to say anything on the power front?

Kumar Subbiah: On the power side, as of now, we have not witnessed any increase in the tariff by the Electricity Boards. So, therefore, availability of power is an issue at the country level, but we have not yet witnessed anything, any impact on availability of power, but as Anant mentioned that we are moving very quickly in terms of looking at alternative sources of power for plants. Almost all our plants now have reasonable percentage of power source through solar or wind at this point in time. So, that will bring down the impact of any inflation that may come. Obviously, as Anant also mentioned, our distribution cost is moving up because the diesel prices have shot up since the beginning of April by about more than Rs. 10 per litre, which is about 10% kind of an impact. So, that will have some impact and some boiler or other alternate fuel. So, coal prices have moved up, therefore, utility cost, particularly steam cost are going up. So, that impact would be there on the cost of manufacturing and the cost of distribution.

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

Sachin Kasera: Can you highlight how do we see net debt at the end of FY23 because you mentioned that this is also the CAPEX including maintenance would be roughly on Rs. 850-900 crores. So, the way we have calibrated the CAPEX as per the outlook, will we need to calibrate the CAPEX if things don't improve and the margins remain under pressure or would be comfortable in terms of further increase in debt to EBIDTA levels and secondly from a 3 years perspective, what type of CAPEX and debt reduction we are looking at? And finally, Anant, you mentioned that the focus is now on return on capital and improvement in return ratios, so from a little medium term, 3 years' perspective, can you tell us what your aspirations are on that front?

Anant Goenka: So, your first question on end of year debt, so most of our CAPEX that we are planning is balance CAPEX of our plants that we had already set up. So, this is for our passenger car nearly Rs. 250 crores, some debottlenecking is about Rs. 50-60 crores. OHT is the new brownfield expansion that we're looking that is about Rs. 200 crores. So, it is largely balance CAPEX and not much new CAPEX that is happening out of this Rs. 750 crores that we are doing. We do expect a challenge another 3-4 months, but we hope that things get better in terms of our ability to take prices up. We continue to work on our cost measures and as you can see, debt levels have come down even in a challenging environment of the last few months that we have seen. So, this focus will largely continue and we are very conscious of trying to maintain our debt/EBIDTA levels under 3x. So, endeavors will be completely there on that front. With respect to 3-year debt, again, our metrics will be to continuously keep it below and we are very conscious of ROCE. So, to that extent, we will only invest in plants and investments that are strong, maybe over 15% kind of levels of ROCE and based on that, we will be taking any further CAPEX decisions. At this point, we have sufficient headroom across the board in terms of capacity. So, we will take a call for further CAPEX only once we have enough demand coming in and returns considerably improve.

Sachin Kasera: Can you comment on your 2–3-year aspiration on return on capital and return ratios?

Anant Goenka: As I said, around a 15% range is what we would like to have.

Sachin Kasera: Just one thing on this exports, is this like a one-off opportunity, which will last for 3-4-5 quarters or do you think this is a more structural opportunity from more like a 3-5 year perspective?

Anant Goenka: No, this is a long-term opportunity that is there because it's not a sudden demand that we have seen in the international business. I think this is something that we have been building also for some time and one of the structural shifts is the China Plus One and our assumption is that the US-China relations are not going to get mended, it is more of a technology war that we are seeing rather than any other kind of souring of relations that are happening and as a result, US is imposing these kind of restrictions with respect to trade with China and as a result, India is emerging as a potential opportunity for supplies into these developed countries. So, I think it's a longish term opportunity that is clearly there and the way we are working with distributors, developing an entire range of tyres, it is not excess tyres that are getting supplied to an opportunistic market, but the way we are looking at it is developing tyres. Once you are there with the channel, with distributors, with final retailers, generally you're quite well embedded and it is difficult to kind of get displaced unless there are major external structural shifts.

Sachin Kasera: So, fair to assume this 20-21% share of exports in the 2-3 years would be much higher?

Anant Goenka: No, I think over the next 2-3 years, exports will be fast growing. We are putting in that focus and I think it can go up to 25% levels also over time.

Sachin Kasera: And one thing on this CV radials, everybody invested a lot of capacity and then the margins that have come down, but now what has happened is that you also mentioned that we are looking at calibrating the CAPEX on the radial side of CV, even the industry players are talking of that, plus when you read all these statements from the CV OEM's financials, we are looking at a very strong growth. So, is it fair to say that maybe the margins in the CV radials have more or less troughed out and with no major new capacity coming in as the demand continues to grow, next 4-8 quarters, the margins in CV radials should see an improvement?

Anant Goenka: Yes, I feel so. I think things should certainly get better on the CV radial side and there has been a strong demand uptick with OEMs and I think with various elements from the Government side in terms of looking at introducing scrappage policy, ensuring old vehicles also don't run on the road, with all of that, I think CV demand will be good and I shared in the last call as well, there have been various initiatives taken in the past, which have caused demand to be down, whether it is increasing safety norms, whether it is increasing efficiency because of GST or increasing loading norms, the CV industry has seen much slower growth in the last 7-8 years' time and as a result I think it is now time that the CV cycle has bottomed out and things will get better going forward.

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

Vivek Ramakrishnan: I have 3 questions. I will just quickly read them off. Is the two-wheeler segment a segment under pressure in terms of overall margins and is it because of extra surplus capacity that needs to be absorbed or is it just demand and when demand bounce back, it will return to normal? That's question number 1. The second part is in terms of Mr. Kumar had said that because of IPL related in Q3, there were higher expenses. So, would it mean that this quarter you would have higher expenses because of IPL? The third question, I missed the thing about the CAPEX. So, to be clear, you are going to do Rs. 900 crores of CAPEX this year and after that you will wait and watch and see how the plans go and given that your operational cash flows have been in the range of Rs. 700-800 crores a year, broadly we would say that much of this CAPEX would be financed by internal accruals, so that'd be true?

Anant Goenka: Okay. So, on the first question on two-wheelers, I would say it's a mix of everything to a certain extent that two-wheelers demand has been low. As a result, there is excess capacity in the market and that has put pressure on margins. It is largely the competitive pressures that has caused margins with two-wheelers to come down because that is the segment there has been lowest price increases. On the IPL, yes, we do expect to incur additional cost in this current quarter and to that extent, expenses can go up. We're putting efforts to make sure that expenses in other areas are brought down, but yes, you would see higher expenses in this quarter as a result of IPL. And CAPEX, yes we're looking at about Rs. 900 crores of CAPEX. On, funding, Kumar, would you like to elaborate that how much will it be from debt and how much internal accrual?

Kumar Subbiah: Okay. It depends on the total cash profit that we make. Our overall threshold limit within which we try to operate this debt EBIDTA is 3. So, that's the overall guideline. So, based on which we try to manage our CAPEX and other aspects also. So, assuming that there is no working capital incremental impact going into the next year and if you have to extrapolate what happened last year, last year our EBIDTA was about Rs. 730 crores and net of the interest portion just about close to Rs. 200 crores and then adjust for dividend. That is the net cash profit that we have made in the last year and balance amount was kind of a debt. So, it depends on what is going to be your cash profit. We can only confirm to you that we expect the margins hopefully should improve in the later part of the year if commodity cost, raw material cost stop going up from a point in time and the balance would be debt. The total debt would most likely be in-line with our norm of 3. So, we don't want to give a number as far as how much would be internal accrual and how much would be our debt. In general, whenever we raise the new CAPEX proposal, we assume two-thirds of it would be debt and one-third of would be accrual, but going into this next year, maybe the share of internal accruals would be at least half of it and balance half of it could be debt, that's the broad high level estimate.

Vivek Ramakrishnan: My last question was on the CAPEX itself. So, after this year's major CAPEX then you are going to pause, see what the growth situation is then you will incur the CAPEX?

Kumar Subbiah: In the current year, a lot of CAPEX we have already incurred, it's more a cash flow that is going to happen, particularly the downstream equipment where the equipment we have already received it, but we have to make the payment, except in case of specialty where it is going to be additional capacity that we are creating. Beyond that, any additional CAPEX would entirely depend on our medium term and long term view on the demand and supply.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Could you just talk about on a full-year basis, what was the share of TBR revenues for you?

Anant Goenka: Kumar, if you have it, you can please share as well.

Kumar Subbiah: It is approximately about 18%.

Sonal Gupta: And like you mentioned in one of the answers to one of the questions that TBB volumes on a full-year basis would have declined year-on-year.

Anant Goenka: Yes.

Sonal Gupta: And just last question, from a strategic standpoint, like you were mentioning that you are developing products for the US market and you plan to enter the US market, but given the scale that we have in exports and you are already making a foray into European markets, that's anyway a very large opportunity, so I'm just trying to understand why get into US and especially it is a competitive market as well as the freight cost of supplying to US from India would be much higher than going to Europe, so just trying to understand the rationale here and what sort of model do you plan to follow, primarily distributor driven or how do you want to do it?

Anant Goenka: Yes, it will be largely distributor driven, but we are finding that the margins in both Europe and US markets are strong. As I said international market margins are now better than replacement and we expect that to continue to be strong as people look at China Plus One kind of model and with margins being strong out there, we feel that it's an attractive market despite the freight costs that are there. Our cost of manufacturing is much lower than international players who set up their factories in the US and we are finding that it is an attractive new market for us to enter.

Sonal Gupta: I was basically coming from the fact that I agree that US is also an attractive market but given that aren't you spreading yourself too thin by trying to go get into both Europe and US?

Anant Goenka: No, I think the main thing is that for us, it adds to our margins, it is margin accretive in a way and therefore for truck radial segment, we feel that it clearly makes sense. The additional cost of supplying into the US is relatively low. It is mainly product development costs that are there, testing costs that are there and if we are able to utilize our capacities better, earn higher margin, we think that this is a good opportunity to look at for selling into.

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

Ashutosh Tiwari: Sir, I think earlier we used to talk about marketing expenses and selling and promotion expenses around 2-3% range, but compared to pre-COVID when they probably used to do Rs. 1,800 crores or Rs. 1,700 crores sales per quarter, now we are at Rs. 2,500 crores, so is there any re-think in terms of cutting down that expense in terms of percentage or you still maintain that percentage range?

Anant Goenka: No, we would like to continue to maintain that percentage in the longer term. In the short term, here and there, we may take calls to cut it if there is some stress on margins, but that will be very little shift that we would be doing. If you look even media prices have inflated to a certain extent. So, we feel that we would continue to invest in marketing strategically. As a percentage of long-term percentage of sales, long-term, there will be no change.

Ashutosh Tiwari: And we mentioned that obviously OHT tyres global, there were some shortages over the last 2-2.5 years, is it still continuing in recent months or recent quarters?

Anant Goenka: Yes.

Ashutosh Tiwari: Okay and lastly on the capacity side on TBR where we are currently and how it will go to by end of 2023, PCR and TBR both?

Anant Goenka: So, on both, we are at about 75-80% utilized today. We expect to be nearly fully utilized by the end of this year, so say in about 12-14 months' time from now, we should be fully utilized.

Ashutosh Tiwari: That would be on the current capacity you mean to say, whatever is going to come by March that is extra?

Anant Goenka: No, there is hardly any new capacity that would be coming in, maybe marginal on the TBR side, but on PCR, we have set up whatever we had to. It's only the payments that are due. So, very little few presses here and there may be coming but I am talking about 20,000 tyres of Chennai additional per day PCR what I'm talking about as the base. We do about 20,000 tyres in Baroda capacity and under 20,000 in Chennai. So, that is 40,000 tyres. We should be quite well utilized in about 12 months' time.

Ashutosh Tiwari: And TBR where we are currently?

Anant Goenka: TBR, we will be manufacturing about 140,000 tyres. We will be utilized at over 100,000 tyres already, maybe 110,000, 115,000 today. So, if CV market picks up and as we enter some of these new countries, we would be at maybe about 130,000-140,000 tyres per month at the end of the year.

Ashutosh Tiwari: In that case, you have to incur some CAPEX as well for TBR?

Anant Goenka: So, we will take a call at that point of time. We had earlier planned some capital investments in TBR, which we have delayed, but as the time comes, we will take a call whether we need to further do investments because of the last year itself has been challenging whether it is from a demand perspective as well as cash flow perspective, so let's wait and watch, things are so volatile. Now the decision-making time itself has come down. We can't plan 2 years ahead.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the Management for closing comments.

Anant Goenka: Thank you for organizing this call and thank you everyone for your time and interest in CEAT. We look forward to catching up with you next quarter. Thank you.

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