"CEAT Limited

Q1 FY '25 Results Conference Call"

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MODERATOR: **MR. JAY KALE – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the CEAT Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jay Kale from Elara Securities Private Limited. Thank you, and over to you, sir.

Jay Kale: Thank you. On behalf of Elara Securities India Private Limited, I welcome you to the Q1 FY '25 Results Conference Call of CEAT Limited. From the management side, we have Mr. Arnab Banerjee, Managing Director and CEO and Mr. Kumar Subbiah, Chief Financial Officer.

I would now hand over the call to Mr. Arnab Banerjee for his opening remarks. Over to you, sir.

Arnab Banerjee: Good afternoon, and welcome to CEAT's Quarter 1 FY '25 Earnings Call. I'll be taking you through the business updates for the quarter and then hand over to Kumar for his remarks on financial performance. Post that, we will have the Q&A.

The tyre industry continues to demonstrate robust growth with rising economic progress and more disposable income, helping in enhanced offtakes of cars. Better road infrastructure is expected to increase the vehicle utilization and enable longer drives. We expect FY '25 volume growth in replacement segment to remain healthy and OEM growth in most categories, led by 2-wheelers and passengers and MHCV will continue to be good.

We have, however, got an issue in terms of a margin squeeze in quarter one due to exceptional rise in raw material prices. We have tried to mitigate it with price increase in all segments, led by replacement in commercial segment, as we speak, including July, we have had a 2.3% price hike. In passenger segment, including July, we have had a similar price hike of around 2.5% to 3%.

In 2-wheelers, we had a price hike already of about 1%, In OEM, which is primarily indexed, we did not have too much of a price change in quarter 1. However, in quarter 2, we see an indexation benefit of already 2%. In international business, the price hikes were back ended and most of it will flow through in quarter 2.

Similarly, in replacement, also, most of the price has happened to in late May, June and July, and hence, were back-ended and will flow through in quarter 2. We continue to improve our product basket and recently launched the Milaze X5, which is the commuter tyre for passenger segments with an innovation in wear and alignment indicator, which is one for a patent.

Our financial year started with strong revenue growth of 8.5% on a Y-o-Y basis, the standalone profit was INR149.2 crores for quarter 1 FY '25, which was 6.4% lower on a Y-o-Y basis. We continue to deliver double-digit post-tax ROCE consistently.

Further happy to share that we have had the highest ever production in our Chennai, Bhandup and Halol plants during the quarter, leading to a better capacity utilization overall of about 80%.

On TBR, our capacity is completely sold out from Halol. We have invested heavily in brand repositioning in quarter 1 to the extent off 100 bps over last year average spend on marketing front.

We also continue to invest consistently in R&D, which is at above industry levels. Growth momentum has continued well into quarter 1 with 8.7% volume growth over last year. It was led by replacement and international business with double-digit volume growth and a some what muted growth in OEM segment.

There have been some headwinds in terms of significant freight hikes to the extent of 3x to 4x in international business and also, coupled with this was the issue of non-availability of containers. Had it not been for these issues, our growth in international business would have been far higher. Our order base looks strong and the growth is coming from desired focused markets of Latin America, Europe and progressively, it will also come from US.

Replacement volume was led by commercial vehicles and 2-wheeler segment, I spoke about the brand relaunch, which has led to increased traction in premium categories. Our saliency in premium categories is continuously up in passenger segment as well as in 2-wheeler segment.

Rural demand seems to be coming back gradually. With good monsoons, we expect rural demand to keep coming back as sustainably as a high level as compared to urban demand. Our raw material cost has gone up approximately by 5% quarter-on-quarter and this is singularly responsible for the contraction in gross margin.

We mentioned about enhanced marketing spreads through IPL and World Cup also. Domestic natural rubber prices has surged by about 25% to 30% over the past few months. And currently, it has scaled INR200 which is the highest in the last 13 years. We have mitigated the RM prices, as mentioned just a few minutes back in replacement and international markets by taking progressive price hikes in steps and will continue to do so in quarter 2.

CEAT is future-ready, and we are geared now towards outgrowing the industry through acceleration in profitable segments through our 4 platforms of electrification, international business, premiumization and investing in digital measures. We have consolidated our position in electric vehicle OEMs in both 2-wheeler and 3-wheeler. We have close to 30% share now in both 2-wheeler and 3-wheeler EV OEMs as well as in 4-wheeler EVs being sold by OEMs in India.

We have started working with international OEMs also and we expect to get some breakthrough and nomination within the next 3 to 4 quarters in international OEMs. International business has been a focus. 20% is saliency in quarter 1, and we have targeted at levels of 25% in 2 to 3 years. This is margin accretive. We launched about 42-plus off-highway SKUs in quarter 1 and about 30-plus passenger vehicle SKUs in quarter 1 targeted towards various international markets.

In Srilanka, the macro situation is improving gradually, and our volumes are seeing positive traction in Srilanka with maintained profitability. We are investing in premiumization, as I mentioned, our coverage of range for meant for premium cars in India, which is let's say, BMW, Audi, Mercedes, etc, continues to be in the range of 95%.

We have launched our latest marketing campaign with a shift in our positioning from being a commuter brand through a highway brand targeted towards bigger vehicles traveling longer distances having higher speed rating.

Our investment in key media properties starting from the strategic time out in IPL with the QR code this time to news during election week and some key GEC properties and finally, in key matters during the T20 World Cup has taken off the new campaign in a very positive front-ended manner.

We also saw the finale of the second season of the KTM Cup in the month of May, which took place at Kari Motor Speedway Coimbatore. All these interventions are going to help and positively impact the premiumization in the passenger category. We continue to lead in digitization across domains and remain committed to offer our best business platforms for our distributors, dealers and the fleet operators.

We are also investing heavily in improving our supply chain through digital modes. Our Chennai factory is slated to go for light out certification. As you are aware, Halol was the first plant to get the certification and we can expect significant gains in energy consumption, wastage reduction, water convention and also enhancement of quality.

With interventions of artificial intelligence and machine learning, we are now getting into predictive quality which is a first in the continuous process industry. And as we know, the best way to reduce cost is to enhance quality. The organic traffic on our website grew 45% and from premium SUV users, traffic increased by 5x. There has been a 42% uptick in brand conversion volume and 140% increase in average engagement per post Y-o-Y. Conversion from website leads increased by 10% for SUV customers.

We indicated a capex for the year at around INR1,000 crores, out of which about INR254 crores were spent in quarter 1, and all expansion projects are progressing as per plan. We continue to reduce our carbon footprint during quarter 1. Our tCO_2 emissions per metric ton of production was lower by 3% Y-o-Y, and currently 37% of our plant requirement is tied up through renewable sources.

Overall, demand is looking good and will continue with our strategy to pursue accelerated growth with margin accretion, by leveraging advanced technology for superior product quality, better operational efficiency and for implementing targeted marketing to capture high-value market segments. We look forward to continue investing in marketing and R&D at levels higher than the industry average.

With this, I would like to hand over the call to Kumar.

Kumar Subbiah: Thank you, Arnab. Good afternoon, ladies and gentlemen and thank you for joining our Quarter 1 FY '25 Earnings Call. I'll share some more financial data points with you all post which we can enter the Q&A session.

Overall financial performance, our consolidated net revenue for the quarter stood at INR3,192.8 crores and year-on-year growth of 8.8% and 6.4% growth sequentially. The growth was driven by volumes and the growth was margin accretive as we had a higher growth in more profitable segments like replacement and exports during the quarter.

Our revenue of INR3,193 crores achieved on a consolidated basis in quarter 1 was the highest that we have achieved in a quarter so far. Coming to gross margin, our gross margin during the quarter shrunk by about 184 basis points year-on-year and 306 basis points quarter-on-quarter, largely due to increase in raw material costs that you know about 5% quarter-on-quarter. Increase in raw material costs basket was largely driven by increase in the prices of natural rubber. The prices of crude derivatives remained range bound during the quarter.

The natural rubber prices are currently trading around INR207 per kg in India and which is the highest in the last 12 years. Indian rubber prices are currently at a premium to international rubber prices to the extent of about INR10 to INR12 per kg due to short-term supply demand gap and further steep increase in the ocean freight has also contributed to increase in the landed prices of natural rubber.

The prices of natural rubber are expected to cool off progressively from end of the current quarter. Overall, we expect raw material prices in quarter 2 to be higher by about 5% to 6% over quarter 1. Considering the spurt and raw material prices, we have already put necessary controls on discretionary expenses.

Coming to operational expenses and operating margins. Our consolidated EBITDA for the quarter stood at INR388.2 crores, this is about 12.2% margin. This is a contraction of 130 basis points quarter-on-quarterand primarily, the contraction is on account of increase in raw material prices and higher but planned marketing expense in quarter 1. Employee costs was lower during the quarter, as in the quarter 4 of last financial year, we had higher variable incentives and retirals that was provided for based on the previous year's performance. Other expenses, other than marketing costs had come down in line with our various programs to bring down the operational expenses.

Now coming to debt and capital expenditure and working capital. We spent about INR254 crores of capex during the quarter, which is in line with our guidance, primarily funded through our internal approvals and the overall proportionate amount of INR1,000 crores spent during the quarter. We kept tight controls on our working capital, as always, and closed the quarter with a negative working capital of INR240 crores. We generated healthy operating cash flow, which allowed us to meet the entire capex of INR2544 crores during the quarter funded from our internal accruals.

Our consolidated debt stood at INR1,647 crores, a marginal increase of INR18 crores over quarter 4 of last year and INR343 crores reduction year-on-year basis. Our debt to EBITDA on a stand-alone basis stand at healthy 1.1 and debt to equity of 0.4. Depreciation for the quarter was largely in line with quarter 4. Interest costs largely remained as quarter 4 effective interest rate has highly remained at the same level as quarter 4, and we expect the interest cost to remain at the similar levels in the near term. Our consolidated profit after tax for the quarter was INR154 crores which compares well with INR144 crores in quarter 1 of last year and INR102 crores in quarter 4 of the previous year, which is the preceding quarter.

Our continuous improvement in free cash flow and balance and improvement in leverage ratios further strengthens our financial position and that is geared up to provide necessary growth capital to the business. Lastly, our strategies are in place to strengthen our brand CEAT while ensuring we meet the investor expectations, create value to the investors and all stakeholders to improve product quality, expanding our market presence and driving innovation through sustained R&D investment. Thanks once again. We can now open the floor for Q&A.

Moderator: Thank you very much. First question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir, my first question is on the volume side, if you can share the volume growth numbers in the quarter for overall as well as replacement and OEM? And I have few more follow-up, I'll come back.

Arnab Banerjee: So the volume growth overall has been close to 9% Y-o-Y and led by replacement and export with double-digit growth and we had a slightly muted growth in OEM in low single digits.

Siddhartha Bera: Okay. So in terms of the outlook, if you can share, I mean, how are you looking at the trends in the replacement side? What is driving this double-digit growth in the quarter? Do you expect some of these trends to continue going ahead? And any particular segment where you are looking at good traction?

Arnab Banerjee: You are asking this for only replacement segment or overall?

Siddhartha Bera: Yes, replacement?

Arnab Banerjee: Okay. So replacement, we had double-digit growth in quarter 1. We expect the rural demand to be good and with monsoons predicted to be good, we expect rural demand to be stable. Hence, farm tyre and 2-wheeler growth, which has been pretty robust, is expected to continue and strengthen further because of our distribution network and investment in brands. The 4-wheeler segment growth also because of investment in highways and extra traveling longer traveling by customers is going to sustain demand-wise. And we are investing heavily in the brand relaunch campaign and new product development.

So we expect passenger and UV tyres also to grow healthily in replacement segment. Our growth in truck-bus radial has been also pretty robust, and we are 100% sold out from the Halol capacity. As Chennai TBR capacity comes on stream by end of quarter 2, we expect renewed growth in the truck-bus radial segment as well in replacement, mining, construction, all these areas are doing well. Overall, GDP growth is good. So in all segments, we expect double-digit growth to continue and in fact, accelerate from here on as we go into quarter 2 and second half.

Siddhartha Bera: Got it, sir. Sir, on the OE side, just a follow-up. If you look at the 2-wheeler industry production, it is up in healthy double digits on a Y-o-Y basis. So why the weak growth on the OE side, if you can share some colour there?

Arnab Banerjee: Yes. When I mentioned OE, it is overall OE. So in the OE, our truck-bus radial sale was constrained because of our capacity being sold out, and we are static in terms of MHCV volumes.

In PC/UV as the new models start coming out and rolling out on CEAT Tyres. Our growth will accelerate in PC/UV, and you're right about 2, 3-wheeler growth being already robust in OEM and here, there's an opportunity for us to increase our market share in both motorcycle and scooter. Hence, this will catch up as we go along in quarter 2 and half 2.

Moderator: Next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Securities. Please go ahead.

Mumuksh Mandlesha: Sir, how do you see the pricing scenario? And recently, we have seen a competitive position in the truck and bus radial space. Also I want to hear your pricing plans for truck and bus radial space. And also, you can comment on other prices scenario in 2-wheeler space as the pricing has been lower there?

Arnab Banerjee: So first, truck and bus radial space, I guess you're talking about replacement market again. So our price increase so far has been the maximum in truck and bus radial space, as I mentioned, about 2% to 2.5%, 2.4% to be precise, including July price hikes. I had talked about in the past few calls about increasing pricing independence amongst competitors in the industry. As we speak, there has been a price discount announced by one of the larger competitors, but we are not going to do any kind of discount that we are holding on.

And we have decided to re-evaluate and further increase in the month of August, which may or may not come but as of now, we are confident enough with our product superiority in TBR to hold our price and in fact, look at a further price increase later on. In 2-wheelers, yes, the price increase has been muted to about only 1% and we are looking at the next price increase by end of July. So we will continuously strive to increase price in smaller doses over quarter 2 in both truck-bus radials, 2- 3-wheelers as well as in PC/UV.

Mumuksh Mandlesha: Just on the 2-wheeler, any reason why this low pricing action, sir?

Kumar Subbiah: In 2- 3-wheeler, in the competitive scenario, there was no price increase by any of the players. We were the only player to increase only by 1%, which is a small amount. And now given the performance in quarter 1, we are confident that we will be able to take further price hikes in 2- 3-wheelers, even if our competitors don't.

Mumuksh Mandlesha: How much further price hike could be required to cover the increase, sir?

Kumar Subbiah: I think progressively because raw material costs impacts as we based on arrivals. I think about overall to recover all the cost gaps in quarter 1 and now, 3% to 4% kind of increase would be required progressively.

Mumuksh Mandlesha: Got it sir. Sir on the EPR, what was the EPR provision for Q1 and what would be in terms of percentage of domestic sales sir and I wanted to understand what's the plan for the pass-through of the impact of the both OEM and aftermarket levels sir?

Kumar Subbiah: No, EPR now from our planning point of view we should assume it as a part of the cost. Internally, we would like to treat that like a normal raw material cost while working out internally gross margins and internal margins. And as per the notification while ATMA Management Committee and body is engaging with government to look at some changes.

So at this point in time it is linked to what was produced two years back and equivalent production sold in India is what should be assumed as EPR. So that is what will be part of the P&L till such time if they get any formal communication with respect to any changes.

Mumuksh Mandlesha: Got it sir. Thank you so much for opportunity.

Moderator: Next question is from the line of Mr. Raghunandhan N L from Nuvama Research. Please go ahead.

Raghunandhan N L: Thank you sir for the opportunity. Sir on the export side growth you indicated in double digits. Would it be over 20% on a Y-o-Y basis? Also then you said that region wise LATAM, Europe and US are doing well and US would progressively do well. If you can elaborate which categories are doing well and US in terms of entry into TBR and PCR, if you can provide some details on how that progress is happening and finally, for FY '25 would it be fair to assume that double-digit growth will continue?

Arnab Banerjee: Okay. So it is not 20% when I mentioned double digit the export growth, but it is pretty healthy. And it would have been much higher had we not faced the issue of container shortages by end of June. This headwind is expected to continue in July and maybe part of August. We have a very healthy order base. So overall through the year we expect double-digit growth to continue in international business. So that answers part of your question.

Now in US truck bus radial the channel build out has happened to a significant extent. We have created, let's say, some kind of geographies within US in mind and 60% of those geographies are already covered by way of network access and we have started booking orders and shipping truck bus radials to US. So that has already started happening. The product feedback is excellent and we are meeting all benchmark product performances after testing by an independent agency.

The passenger car radial rollout is going to happen by quarter 4 of this year or by quarter 1 of next year. We are testing our products. The range expansion is happening and the channel build out has also started. So this is the status. Agri radials are already selling well and growing significantly, of course, on a low base in US. So US progressively will become an important factor and in international business and our growth should accelerate.

We are seeing good traction of passenger and truck bus radial and agri radials already in Europe which is somewhat of a more mature market for us. And LATAM, our truck bus radials have grown very handsomely in LATAM. Passengers radials and 2-wheelers have a very small base and have got significant upside which is yet to be tapped.

Raghunandhan N L: Got it, sir. And specifically on the agri radials given that you are coming out with more and more new products, the growth will obviously be including market share gains for you, but how would the underlying market be doing sir? Is it seeing a positive growth in Europe and the US.?

Arnab Banerjee: See we have a very low base in US. So the growth is fantastic. So you should see it in that context. We have just entered US with agri radial a couple of years back. In EU we are doing well on the replacement side and we have been gradually gaining access and market share in EU. When the OEM volumes come back in EU and in the rest of the world, let's say, LATAM etc that is when the real blockbuster growth will come.

We have set up the capacity at Ambernath which is at 105 tons already on. Our utilization is about 70%. So 30% headroom is there which we want to utilize by quarter 4. The project for Phase 2 is gaining traction for 160 tons. So we are pretty confident about growth given our low base and given our go-to-market success and visibility so far.

Moderator: Thank you. Next question is from Mr. Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Hi, sir. Thanks for the opportunity. My question is on EPR. For this quarter have we taken EPR and is it part of RM?

Kumar Subbiah: No, it is not part for RM. I said we would like to treat it the way we treat RM from internal performance management point of view. So in the books of accounts it will appear as other expenses at this point in time.

Ajox Frederick: And we have taken for this quarter

Kumar Subbiah: We have taken.

Ajox Frederick: Okay. And sir again by accounting for the reversals my math is showing 1.03% of revenue to the EPR versus our earlier guidance of 1.3% to 1.5%. Am I right it has come off from what you have purchased and then I'm netting off your earlier numbers?

Kumar Subbiah: We made a provision based on certain assumptions. At that point in time certificates were not available or we are not able to establish the market value. So as we had completed the our commitments for the year '22-'23. Whatever we had assumed versus what we had actually incurred that amount the differential amount we have shown it as income and the exceptional costs. I would still say it's early days.

I still say early days because in the year 1 the commitment is about 35%, year 2 it goes double and the year 3 which is the current year it triples. So from that point of view it's too early to say what the rates would be okay with respect to certificates. And second government is also trying to fix up some floor rates. So from that point of view it's possible that the rate that government is now in terms of guidelines seems to be higher than the market rate.

So therefore we are not able to confirm whether to you what it will be. Internally, I think we have told you what the number would be in the last call. So let us stick to that range. maybe a quarter or 2 later we'll get more clarity and possibly, we'll be able to share more information in terms of how market has panned out.

Ajox Frederick: Understood sir. Very helpful. That’s it from me. Thanks.

Moderator: Thank you. Next question is from Mr. Amar Kant Gaur from Axis Capital. Please go ahead.

Amar Kant Gaur: Hi, thanks for taking my question. I had a couple of questions. First one being -- so you guys have been quite proactive in terms of taking price hikes and not just taking price hikes for offsetting the impact of RM, but also improving your pricing position in certain segments. So I just wanted to understand cumulatively since, let's say, from the beginning of the year what would be the price hike that you have taken in each segment and how far according to you, you would be from the leader in those respective segments in terms of pricing?

Arnab Banerjee: So I mentioned in commercial segment including July we have already taken about close to 2.3%, 2.4%. In passenger including July we would have taken again close to maybe 2.5% to 2.8%. In 2 -3-wheeler it has been somewhat muted, but we have taken a price hike of around 1% in replacement segment. OEM is indexed as I mentioned and we have been aggressive in terms of price hike and we believe as Kumar mentioned we need to mitigate another maybe 2% odd price hike overall, at least maybe more which will continue to do in the month of July and August and maybe in September as well.

Amar Kant Gaur: So just to understand your pricing position versus peers could you shed some light on that?

Kumar Subbiah: Yes, there are many peers. So you want me to answer on behalf of all that will be too much. But I can tell you...

Amar Kant Gaur: Just from a leadership perspective?

Kumar Subbiah: So the market leader in TBR has not taken any price hike in quarter 1. The number two player in 2-3-wheeler which is the same player as the market leader in TBR has not taken any price hike in any category. And all others have taken some price hike here and there depending on their strength in the respective markets. I would say the range would be similar for the other players barring one player.

Amar Kant Gaur: Understood. And if I got it correct Kumar you said there would be further 5% to 6% RM cost increase in Q2?

Kumar Subbiah: Yes. Approximately that is what we expect in terms of RM cost on RM yes.

Amar Kant Gaur: So just to go back there's so much of price hike that you have talked about and you have definitely taken there's an EPR which you're talking about part of it will be automatically translated, but when I look at the numbers this year, this quarter your ASP is largely flattish. So can you indicate where there's a gap in our understanding?

Arnab Banerjee: Yes. So first of all the OEM business is indexed. And there we have hardly got any increase because it will come with a lag. So the price hike in OEM is coming in quarter 2. The replacement price hikes have all started around May, middle to May end, June end and now in July. So it is back ended and the full impact will come again in quarter 2. In international business, we have a healthy order base which needs to be serviced and then the price hike will come. Secondly, because of the very high freight rates, which we have seen in international trade in many cases those increase in freight rates are shared between our channel partners and us.

These are some of the reasons why the entire thing has not flowed in quarter 1. And you are right when you say that the value growth is almost entirely volume growth. So it is almost similar. So net impact will come in quarter 2. One more thing is that the business mix was such that the truck-bus radial sales and replacement was also disproportionately higher as compared to some of the other segments. So all combined it has not flown through adequately in quarter 1 and should flow through in quarter 2.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from AMBIT Capital. Please go ahead.

Jinesh Gandhi: My question pertains to the Volume growth of what we are talking of close to double-digit growth for FY '25. This is what we expect across categories? Or it could be laid by the 2-wheelers in farm segment and PCR and truck and bus would be relatively low single digit or the single digit kind?

Arnab Banerjee: I cannot predict exactly but are you talking of replacement or overall?

Jinesh Gandhi: Sorry replacement.

Arnab Banerjee: Replacement. Okay. So because as I mentioned the rural demand seems to be coming back and monsoons are going to be good. So we expect 2-3-wheeler and farm definitely to continue growing strongly for us. And in 2-3-wheeler and farm both we have a network advantage. In terms of commercial vehicle, our base is low. As you know, we have a low market share to start off with in replacement.

So as the Chennai facility comes along, we expect to grow because a very favourable feedback that we are getting from customers who have used the tires. It is definitely superior in performance to any of the competitor SKU to SKU. So once the capacity comes on stream in half 2, we expect to do well in truck-bus radial as well. Passenger growth is maybe in single digits and may not test double digits. So that will be a little muted is what our expectation is. So overall, in the mix combined with other categories, we expect to definitely grow in double digits.

Jinesh Gandhi: Got it. And just a clarification for possible the entire cost inflation, which we've seen in 1Q and 2Q, we need to take another 2% price hike or 3% to 4% price hike?

Kumar Subbiah: No. I think, see, since we have already taken some increase and that is not reflected in the financials because of reasons that Arnab just mentioned on the exports the freight impact of it is currently shared or the existing contract, the CAF contract those prices are currently absorbed by us. And second also, a little bit on category mix with respect to realization per kg has not been favourable because of higher growth in commercial categories and therefore these are the reasons.

So when Arnab indicated 2%-3% it is after adjusting the price increase that we have already taken. So overall, to mitigate the impact, we need around 3%- 4% based on what we have seen as far as the current quarter is concerned. So any increase in the prices of raw materials recently will have lower impact in the current quarter. And if it's sustained will be there more than subsequent quarters. Just to mitigate the impact for current quarter around this range should be okay.

Moderator: Thank you. Next question is from the line of from Nirav Seksaria from Living Root Analytics. Please go ahead.

Nirav Seksaria: I think you said that Q1 and Q2, you need to take like 3% to 4% price hike, right?

Kumar Subbiah: Yes. No, I said because some increases happened already in the beginning of July.

Nirav Seksaria: So to -- including that, it's 3% to 4%.

Kumar Subbiah: Yes.

Nirav Seksaria: Okay. And also could you also mention the average commodity price that you're seeing in Q1?

Kumar Subbiah: Approximately commodity basket increased quarter-on-quarter by about 5%.

Nirav Seksaria: Sir, I mean, could you give me the price of natural rubber, crude coming that we have seen in Q1?

Kumar Subbiah: Beginning of a natural rubber, I'll be able to tell you. See, carbon flat has multiple grades overall carbon flat prices did not change much in quarter 1. So in case of natural rubber, I think the beginning of the quarter it was hovering around INR165 in that range and currently, local prices are around INR207 and international prices are about INR10-INR12 discount to current local prices. So that moment is lower. That increase would have been lower but for the increase in freight rates, which we expect it to normalize, for example, Southeast Asia to India, freight used to be around $45 to $50 per ton.

Currently, it's $119 per ton. So we hope this will progressively by end of the quarter, we'll come back to the normal levels. So to that extent natural rubber prices should also get the benefit of drop in ocean freight as far as international prices are concerned. Considering domestic prices have some linkage to import parity prices. The local prices also should stabilize. So natural number of INR207 today premium about INR10-INR12 to international price.

One is on account of the fact that no, there's a local demand. Second, transit times have increased. Earlier it used to take about 3 weeks for a vessel to reach from Southeast Asia to one of the 2 ports in India either Chennai are JNPT as far as natural rubber is concerned. That 3 weeks has now become 60 days. So there is a short-term blip in terms of supply-demand gap. So that's what that will always have a profound impact on the local prices for a short period of time.

So that's the way natural rubber prices have moved. Crude derivatives have more or less remained within a range bound. Crude prices were hovering around $90 in the first half of the quarter 1 and it came down to around $85. And at some point time it even went below $80. So it's been range bound overall. And so from that point of view crude derivative prices have not really changed much as far as the consumption cost in quarter 1 is concerned.

Nirav Seksaria: Okay. So it's fair to assume that that in Q2 also, we see a major increase in natural rubber?

Kumar Subbiah: Yes. See, current market prices eventually will reflect. So our holding inventory cost is obviously lower because these purchases were made over a period of time. And they're unlikely to buy large quantities and the prices are at a 12-year high. So we will buy base on the need. Sufficient quantities are there in transit. So therefore, local purchases would be immediate short-term need-based still sustain those consignments which are there on it reaches our ports. So therefore, we are taking those things into consideration removing those streams in our forecast in our pricing decisions.

Moderator: Thank you. Next question is from the line of Mr. Joseph George from IIFL. Please go ahead.

Joseph George: Just one question on the RM basket. You mentioned that in 2Q, you expect it to be 5% to 6% higher compared to 1Q. What I want to understand is, will that reflect the entire RM pressure? Or do you expect it to increase further in 3Q if the current price of crude and natural rubber were to sustain?

Kumar Subbiah: Okay. No. See, quarter 2 is on a base of quarter 1. Our understanding on the market the commodity prices are difficult to predict. But directionally, what we see is that the $150 impact on freight on most of the raw materials which are imported we expect that to correct over this quarter. And even on the export rate also, once the availability of this is because the freight rates have gone up 3x to 4x in general and transit times have doubled if not tripled depending on the location.

So we expect that to correct. When the international prices are rubber, let's assume it states today international rubber prices around $1,630. Let's assume that state. When the transit time come back to normal levels, when the price rates come down, what happens the premium in the domestic market will get readjusted. So those things will happen during the course of the next quarter. But without even underlying SICAM as a reference for a rubber or crude changing much from the current levels.

Moderator: Thank you. Next question is from the line of Mr. Amin Virani from JPMorgan. Please go ahead.

Amin Virani: Just had a clarification on this EPR. In the notes, you have mentioned that you have reversed the charge for FY '22- '23. So just to understand, you have reversed it from this quarter's numbers or you have gone back and reversed it from last year's numbers?

Kumar Subbiah: Because we have reversed it in the current quarter therefore, we have shown it as an income in our exceptional costs. Exceptional costs, you would see as a negative about INR7 crores approximately. That's largely on account of '22-'23, adjusting some VRS that we had.

Otherwise on a restatement when we provided in '23-24, for '22-'23, we called it out as an exceptional item because we are not pertaining to '23-'24 it was pertaining to '22-'23. So since our actual costs are a little lower than our estimate, we have also reversed under the same head as exceptional costs.

Moderator: Thank you. The next question is from Mr. Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir, I had a question on this. Basically, your competition not raising prices. So do you think that and especially in the 2-wheeler segment. So now that we sort of leading the price hike, do you think there's a risk of growth slowing down on market share loss, given the difference now in the pricing? Or you don't expect anything to sustain much despite the price gap with the larger players?

Arnab Banerjee: So I mentioned there has been no price hike by one competitor in quarter 1. The same competitor is having a price hike in the month of July. So the situation will correct.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Just on the employee cost, sir, it has seen a sequential decline in Q1 any one off thereand what should be sustainable rate numbers are there?

Kumar Subbiah: In our employee cost us some posts a variable element is there and which is linked to overall company performance, considering last year, we had grown well, particularly with respect to profits. So therefore, quarter 4 had provisions relating to company performance. And which is normalized as well as the current year goes.

Second, I think in the previous engagements, we spoke about improving capital productivity as one of the drivers. We are also working on improving manpower productivity as one of the important themes within the organization. Particularly, we also want to reflect that in terms of employee cost as a percentage of turnover as well in addition to that.

So some work has happened. You would have seen some VRS cost appearing in our exceptional item. One of the consequences of that is also it should lead to some drop in employment costs. And we are working in terms of improving our manpower productivity so that not only in absolute cost, but it also reflects in terms of cost as a percentage. So some of those initiatives have started yielding resultsand therefore, you will see that some improvement in the employment cost as been focus.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from AMBIT Capital. Please go ahead.

Jinesh Gandhi: Yes. My question is on other expenses. The clarification, the 100 basis point increase in marketing spend we are indicating is both Y-o-Y on a Q3 basis. Is that correct?

Kumar Subbiah: Can you repeat the question once again, please? What are your questions?

Jinesh Gandhi: The increase in marketing spend of 100 basis points is both on Y-o-Y and Q3 basis for IPL and World Cup. Is that correct?

Kumar Subbiah: Generally, our marketing cost, we look at on a full year basis, which are some kind of seasonality. But during IPL season, we spend more. So what we spent, I think, which was covered in Arnab speech was what we spent was higher than our average pay almost on that basis, about 100 basis points over what we will be spending on a full year basis.

Moderator: Thank you. The next question is from Chirag Shah from White Pine Investment Management Pvt Ltd. Please go ahead.

Chirag Shah: So the first one, clarification for the revenue growth that we had Y-o-Y, what is the breakup between volume and pricing in the aggregate level?

Kumar Subbiah: Yes, year-on-year basis as well as quarter-on-quarter basis, the revenue growth is actually a volume growth. In fact maybe plus or minus 0.1% level. Okay. So you might assume it as a volume growth.

Chirag Shah: Okay. So second question is on the distribution side, especially. Sir, second question is on the distribution side, especially in the export market, U.S. and Europe, so who are the distributors? Are they very similar to your existing Indian peers who are present over there? Or there are different set of distributors you are targeting?

And how are you differentiating your case given that you are the among the latest entrant from the Indian continent? And if I can even from the Asian continent in that sense. So how are you differentiating yourself that you start gaining a reasonable and sustainable footwalls?

Arnab Banerjee: So these are local distributors who are experts in placing products in retail markets in those territories and also in fitting truck-bus radial tires to establish fleet operators in those territories. So they are not Indians who have settled there necessarily in Europe and U.S. So that's number one.

And number two is that the distributor's portfolio of brand should match our value proposition. That is how we select. Our value proposition is superior quality, let's say, and quality which is equivalent to the top 3 in Europe and at a value pricing, right? So how do we support that. We support that by independent ratings by magazines in Germany, for example, they pick up the tariffs in the market, and we have no hand in supplying the samples.

They pick it up and test and they act. And 2 of our platforms have ranked in the top 15 in Germany, which is one of the toughest markets in the world. So those are the measures that we are taking through which the customer gets confidence to take it off the reductions. So they are completely different, and the product quality, which is tuned to the local market is completely different. U.S. is different from EU as well, and U.S. and EU are both completely different from India.

Moderator: Thank you. The next question is from the line of Aditya from Sowilo. Please go ahead.

Aditya: My question was like that you have the highest R&D spend. So what exactly is it like spent was or like do you have a specific portion which is it like overall into R&D for tires or do you dedicate specific portions targeting specific markets like U.S. Americas or EU?

Arnab Banerjee: Yes. So the trend is targeted towards India, first of all. We are big domestic players, and we are investing heavily in product development for truck-bus radial, you heard me say that our products are definitely superior to that of competition in truck-bus radial. We are launching new engines in in passenger, we are overhauling the full range to next generation product in 2-wheelers.

So bulk of the spend is targeted towards increasing share and dominance in the Indian market. As far as EU and U.S. is concerned, we have an R&D office at Frankfurt in Germany, which you are aware of. So that office along with the India office invest heavily in product development for EU and now increasingly maybe for the other international business market. So when I say investment in R&D, it is primarily towards domestic market and then towards international business.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: I just had one question. You did mention about the independent pricing strategies now across segments. So could you give us some sense on, say, for a like-to-like SKU in each of these categories, how are we placed in terms of pricing or just a new market leader in each of these segments?

Arnab Banerjee: When I say independent, it's not completely independent, I must correct the perception, but it is increasingly independent, let's say, over the last 4 years-5 years. And this is an industry phenomena. It's not just about CEAT, right? So in 2-wheeler, for example, our pricing in motorcycle and scooter would be anywhere -- we are the market leader.

So vis-a-vis not the question is relevant and clear. But the largest competitor. The second player, we are about 2% to 4% higher in 2-3-wheelers. In fact, market leader is Bridgestone and the Bridgestone would be 8% -12% higher than us across the excluded. Yes. So they have a massive premium on CEAT as well as, let's say, Apollo. And CEAT and Apollo would be somewhat similar in pricing.

So that's the PCR range. As things stand now, we would be within 1% to 2% of the market leaders in truck-bus radial, we are lower in terms of pricing in the truck-bus radial segment. So these are the 3 main segments. I hope that answers your question.

Mukesh Saraf: Yes. Broadly, actually, in some form, I was trying to understand if there is some -- if there is going be some independence in pricing because in 2-wheelers, we weren't clearly able to take too much hikes. Obviously, the leader there did not take hikes in the last quarter. And in TBR, we are looking to take hikes. Obviously, we are still priced lower than we say the market leader there.

So just trying to get a sense, while we have over the last year or so, we have taken a lot of hikes. Are we coming to a situation where from here on, taking hikes is actually going to be a lot more competitive because we're starting to see a lot of price actions, some discounting the leaders taking price hikes with a much larger lag now. So I was just trying to get that sense?

Arnab Banerjee: Yes. So in truck-bus radials, your market share is in single digits, as you are aware. So from that perspective, it really doesn't matter. We can take pricing stand, which is fairly independent. So that independence actually comes from low market share position. In 2-3-wheeler, you're right. The independence is not 100%.

The price hike has been 1%, but there will be a price hike at the end of July, irrespective of what our competition does. And that confidence comes from our market share status and volumes in quarter 1, which is already demonstrated. In passenger, it's a multi-corner thing. So the most competitive actually is passenger Car Tires, where there are multiple players and in multiple segments of commercial and passenger Car Tires, multiple kind of pricing stands are there.

So there, it will be opportunistic and not across the board, but in whichever segment also geographically, we may differ, like North and South India, etc. And it we will go for opportunistic pricing action in passenger vehicle.

Mukesh Saraf: That's it from my side. Thank you for that.

Moderator: Thank you. I now hand the conference over to Mr. Arnab Banerjee for closing comments.

Arnab Banerjee: Yes. So thank you very much for your patience and attending this call, and thank you for some great questions and it also gives us some fruitful thought as to what we would be acting upon and see you at the end of quarter 2, and wish you all the best. Thank you.

Moderator: Thank you. On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.