"CEAT Limited Q3 FY25 Earnings Conference Call"

January 16, 2025

MANAGEMENT: **MR. ARNAB BANERJEE – MANAGING DIRECTOR & CEO, CEAT LIMITED**
MR. KUMAR SUBBIAH – CHIEF FINANCIAL OFFICER, CEAT LIMITED

MODERATOR: **MR. MUMUKSH MANDLESHA – ANAND RATHI SHARES & STOCK BROKERS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the CEAT Q3 FY25 Earnings Conference Call hosted by Anand Rathi Shares & Stock Brokers 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. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

I now hand the conference over to Mr. Mumuksh Mandlesha from Anand Rathi Shares & Stock Brokers Limited. Thank you and over to you, sir.

Mumuksh Mandlesha: Thank you. Good afternoon everyone. On behalf of Anand Rathi Shares & Stock Brokers, I welcome you all to the Q3 FY25 Results Conference Call of CEAT Limited.

From the Management side, we have Mr. Arnab Banerjee – Managing Director & CEO and Mr. Kumar Subbiah – Chief Financial Officer.

I would now like to hand over the call to Mr. Arnab Banerjee for his Opening Remarks. Over to you, sir.

Arnab Banerjee: Good afternoon everyone and Happy New Year to everybody and welcome to the Quarter 3 Earnings Call.

I will be taking you through the Business Updates for the Quarter and then will hand it over to Kumar for his remarks on Financial Performance and after that, we will have the Q&A.

Our Q3 continued with aggressive growth on revenue front with 11.6% growth in value Y-o-Y and 7.9% growth in volume. The standalone profit was Rs. 96 crores for Q3 FY25. Growth momentum was good overall with 7.9% volume growth over last year as I said. Our segments of international business and replacement have grown in double digit value while the OEM segment is also coming up, it grew about mid-single digit. We have almost matched the all-time high turnover in Quarter 2, both in value and volume terms. Our turnover was Rs. 3,292 crores on a standalone basis.

The international segment managed to grow in double digits Y-o-Y basis, as I mentioned. In the passenger category as well as in the 2-Wheeler and 3-Wheeler category, we witnessed good growth from almost all geography, but more so from Europe where even truck bus radial turnover is also starting moving to a higher level. Replacement markets saw double-digit growth in commercial vehicle with stronger growth in the radial segment and slightly less flattish growth in the bias segment. We have grown well in 2-Wheeler also in replacement with higher growth coming in from the rural market where we have a distribution advantage. The growth rate in rural market was almost 40%-50% higher than the growth rate in the urban market. We are seeing good traction within 2-Wheeler in scooter tyres across all markets in the country. This has led to good utilization of capacities in almost all our plants, which is around 75%-80%, sometimes higher than 80%. Halol is very high at about 95%.

OEM volumes are coming through and started to grow with increase in the market share in 2-Wheelers and with more vehicles getting launched in CV segment, we are seeing traction in 4-Wheeler as well. For the upcoming quarter, we expect OEM growth to accelerate in both 2-Wheelers as well as 4-Wheeler segments and also consolidate in the TBR segment, though the overall OEM volume in MHCV segment is negative.

In OHT (off-highway tyre), international business has recorded very good growth in the aftermarket, especially in the European Union, and we expect this strong trend to continue and when the OEM sales bounces back, the overall OHT volume in international market will also accelerate. We continue to deliver double digit post tax ROCE. In the last call, we had talked about our acquisition of Camso. There is no change in the status because the deal is expected to be closed by the month of May in Quarter 1. There is no impact of this either on Quarter 3 or in Quarter 4 Results in FY25.

Demand outlook considering that the monsoon was okay, Kharif harvest should yield food inflation and overall consumer sentiment in the coming months. Government spends in rural infra is strengthening the purchase power of rural India and overall market in rural which supports our farm tyres and 2-Wheelers are expected to be robust in the coming months. As far as growth is concerned of the market demand outlook, we expect the truck bus segment to grow in high single digit as well as 2-Wheeler and farm. 2-Wheeler possibly may grow in double digit as well, farm and passenger will be in low single digit. That is what we expect the markets to grow by in the next few quarters, next quarter, definitely in the next few quarters. Seasonally we are seeing a slight dip in North and Eastern India where demand comes down overall in the winter months.

In the OEM segment, as you are aware, MHCV is still continuing to de-grow in low single digits and 2-Wheeler segments in OEM, the growth has slowed down, but still overall it is growing close to double-digit and passenger car tyres, again the growth has slowed down in low single digit. However, in this segment, as I mentioned, we are focused on increasing our share of business because of the accelerated fitment of CEAT in the passenger cars especially and 2-Wheeler vehicles which are being rolled out.

So, overall, some more facts on the international market:

Our GTM in the US is progressing well. The initial set of regional distributors has been set up. Product feedback is good. And we have a visibility of commitments made by our channel partners in FY26 and we expect that this business will now enter a growth phase, at least TBR segment in US or OHT business in US is also stable and growing in the aftermarket.

As far as margins are concerned, we saw the raw material price escalation of about 1.2% in Quarter 3 over Q2 and business mix and price increase were insufficient to cover up this gap, resulting in a slight margin dip of 0.6% in gross margin, as we just translated into 0.6% dip in EBITDA as well. We have taken price increases in commercial and farm to the extent of 1%-

1.5% in Quarter 3, about 4% in passenger, in replacement, these are all replacement; however, we did not take price hike in the 2-Wheeler segment barring at the end of Quarter 3 and those price hikes are going on in the month of January. By the end of January, we will be going up in 2-Wheelers, 3-Wheelers as well. We got a good 3%-4% price hike in indexed categories of OEMs, and we got our discussion-based price hike in the commercial segment of OEM as well. This was obviously insufficient as I said to combat that 1.2% price hike in raw materials and therefore apart from 2-Wheeler, 3-Wheelers, which I mentioned just now, we will look at further price changes in Quarter 4 in replacement and international businesses.

Now, coming to the strategic part:

We are looking at electrification, international business, premiumization and digital and we talk about these 4 pillars in every analyst meet. Our intention to get pole position in electric vehicles is going well. In 2-Wheelers, 3-Wheelers and in 4-Wheeler electric vehicle launches in OEM, we have roughly about 25% share of business which hovers around this figure consistently and we intend to maintain this and gradually inch up the share in the OEM business.

In the replacement market, the trend going forward would be to have tyres which are suitable for ICE and electric vehicles, and they have to be electric fit. So, there will be no distinction by and large, barring a small range in terms of tyres for electric vehicles in the replacement market. And that is the trend internationally as well.

Overall international business has been a core focus area. Our acquisition of Camso is a significant milestone which will take us past our milestone of 25% saliency international business. Our non-Camso saliency continues at about 19% and in Quarter 1 next year, when we start accumulating this business post that, we intend to reach a figure of 26% and this volume continues to be margin accretive.

Other than Camso, we have had (+46) off-highway SKU launches in Q3, so that organic growth continues. Multiple OEM approvals have come in from IPL, Magna, JD Brazil and AGCO Massey Ferguson. We have progressed well on channel expansion further for OHT in US market and we have entered new countries that include Vietnam and Peru. There have been some headwinds in international markets, geopolitical conflicts around the Middle East and also currency depreciation in Brazil, which are providing some headwinds. Otherwise, as I mentioned, the GTM in the US and the market access in Europe is improving significantly, leading to a very good. Quarter 3 performance first of all in passenger and TBR and the outlook is also better in future.

Sri Lanka's macroeconomic situation is in a positive trajectory. The new government has come in with a huge mandate and it has taken control. Tourism, foreign remittances were recorded the highest ever in last 5 years and our Sri Lankan business also is going to be robust in the coming future. It is slated to meet its topline and bottomline targets for the current financial year.

Premiumization is the third pillar which we are focusing on. And again, I would repeat that Camso acquisition is actually a premium brand acquisition in the OHT segment with realization far ahead of the value and quality segments and once it comes with us, we would like to retain the premium strategy, the premium positioning and the premium pricing and offer the value at the premium end to our customers, mostly in Europe and US.

In keeping with the tradition of premiumization, we have launched a new innovative tyre in the 2-Wheeler segment called Secura **lyfe**, which has got a very high product life without compromising the grip of the tyre.

We also got fitted on the Mahindra Thar Roxx, which is the 5 door Mahindra vehicle, and many more SUVs are also coming up with 17 inch plus fitment. Our 17 inch plus Rim tyre which we track in terms of the overall business is related to hit 25% of OE fitment within the next few quarters and that is one metric which we track because the repercussion on replacement demand will be positive going forward if we get such fitments in the larger SUV vehicles.

We also got recognition and awards from OEM such as Daimler for the service level and quality. On digital, we are proud to announce that our Chennai plant has been designated as a World Economic Forum Lighthouse. This is the second plant of CEAT which got this recognition, and this is for effectively leveraging advanced fourth industrial technologies to achieve and maintain operational excellence. All this is to reduce crap to improve energy efficiency, to improve manpower productivity and to remove defects and improve quality. So, this will also see reflection going forward in terms of efficiencies in margin.

The organic traffic on our website grew by 25% and the leads from premium SUV users increased by 42%. Conversion from website leads for premium SUV customers increased to 17%. Brand positive sentiments moved up 47% and there was a 166% increase in average interactions per post Y-o-Y. Our CAPEX was about Rs. 250 Cr for Quarter 3 and we maintained the overall guidance of around Rs. 1,050 for the full year, we will stay within that, and we had enabling approval from the board on Nagpur expansion of 2-Wheeler capacity to 100K tyres per day which may be executed within our overall CAPEX governance, which is bite size CAPEX of around Rs. 1,000 crores year-on-year.

Our Halol plant received international sustainability and carbon certification ISCC PLUS approval and ISO 2400 certification, highlighting our commitment to sustainable procurement and ethical sourcing. So, on sustainability, we continue our focus on renewable power generation and sourcing of raw material, natural rubber, particularly through alternate source which are more energy efficient, and it has gone up by 26%. Rolling resistance in our tyres has gone down by 5%, which are all moving towards fighting global warming and making a sustainable future happen. So, that is about kind of sums up our strategy of pursuing double digit aggressive growth.

Outlook for Quarter 4 is acceleration of growth from 11.6% further, raw material expected to go up from flattish to maybe 0%-1% depends on way in which crude and currency depreciation moves and so we are looking at expansion of our Chennai capacity and increase in market share in the passenger segment, especially in the SUV segment going forward.

With this, I would like to pause here and hand over the call to Kumar for his remarks.

Kumar Subbiah: Thank you, Arnab. Good afternoon, ladies and gentlemen, and thank you for joining our Q3 FY25 Earnings Call.

I will share some further financial data points with you all post which we can enter Q&A session.

Overall revenues, consolidated revenue for the quarter stood at almost Rs. 3,300 crores, year-on-year growth of about 11.4% and very similar to the revenue that we achieved in Quarter 2. The revenue growth was driven by all segments, double digit growth in all segments, replacement, exports and OEM and with a good mix of volume and price growth.

So, our consolidated operating margin, which is EBITDA for the quarter, stood at Rs. 346.3 crores, translating to 10.5% margin. This is about 387 basis points contraction year-on-year and 64 basis points contraction quarter-on-quarter. The margin drop is primarily on account of the net increase in raw material prices, which we could not pass it on to customers in this cumulative period.

Coming to gross margins:

Our gross margin for the quarter stood at 36.9%. On a year-on-year basis, our gross margin contracted by about 450 basis points. Through some effective cost management, we reduced the impact of the same on operating margin to the extent of about 63 basis points.

The raw material price basket has marginally increased in Quarter 3 compared to the previous quarter in line with our expectations that we had shared in the last call. And while most of the raw material prices moved in line with our expectation, international rubber price remaining at a level of $1,900-$2,000 was a surprise with respect to our own assessment, so overall our EBITDA margin contracted by about 64 basis points quarter-on-quarter largely on account of increase in raw material prices.

Crude has remained largely range bound most part of the quarter in the range of $70-$75, except very recently, it reached towards $80 and otherwise it remains constant. Rupee has been seeing some slide in the last 1 to 1.5 months driven by factors like foreign portfolio investors pulling out of Indian market leading to outflow of currency, Chinese currency depreciating and also general appreciation of US dollars against the global currencies.

Coming back to rubber:

The domestic rubber prices had started to cool off during the course of the quarter from a peak of Rs. 250 per kg, which is a 15 year high in Quarter 2. Largely, the rubber prices in the local market is now currently around Rs. 190 per kg. As I mentioned earlier, international rubber prices are in the range of $1,900-$2,000 level which as per our understanding, at least $150-$200 higher than the normal range at which it should be operating relative to the prices of other commodities.

In case of crude, as it remained in $70-$75, though there were some corrections in the prices of crude derivatives like Butadiene caprolactam, the correction has been lower than the drop that we saw in crude oil prices. Considering all these factors, we will continue to keep a close watch on our raw material situation. We did bring down our overall covers of natural rubber during the course of the quarter with a hope to buy raw materials at the right levels as and when the price is normalized. We expect overall raw material prices for Quarter 3 to be largely in line with Quarter 2 with a minor variation of (+/-1%) as Arnab had already shared with you.

Coming to capital expenditure:

We incurred a CAPEX of Rs. 283 crores during the quarter. Cumulatively, in the first 9 months of the year, we incurred about Rs. 713 crores. All this is cash outflow up towards capital expenditure and we stand by our full year estimate of CAPEX to the tune of approximately around Rs. 1,050 crores and balance amount we expect to spend in Quarter 4. The entire CAPEX of Rs. 283 growth that we incurred in Quarter 3 was funded through internal accruals.

Working capital:

I think we shared in the last quarter, about some increase in working capital in the previous quarter, largely an account of increase in raw material inventory, particularly in natural rubber due to increase in lead times. We are happy to share with you that the working capital was brought down by about Rs. 84 crores during the quarter and we still think that there is an opportunity for us to normalize working capital more in Quarter 4. We generated healthy operating cash flow during the quarter and despite spending Rs. 283 crores in capital expenditure and some drop in working capital, our debt for the quarter came down by about Rs. 50 crores from Rs. 1,885 crores-Rs. 1,835 crores as of end of the quarter. And here I would like to mention that the drop in debt level happened towards the end of the quarter and as things normalized and average debt during the quarter was slightly higher than the previous quarter, though we manage to bring it down towards the end of the quarter.

With all this, our debt EBITDA on the consolidated basis stands at a healthy level of 1.22 and debt equity at a healthy level of 0.43. Employee costs remained largely at the same level as in Quarter 2. Other expenses were managed during the quarter, considering little bit of pressure on account raw material costs, we kept the tight control on cost and therefore the margin impact was restricted only to the extent of difference between the price increase and increase in raw material cost.

Coming to depreciation for the quarter:

There was some increase in depreciation, largely rising out of commissioning of new facilities, expansion of our truck and bus radial tyre plant, the new plant in Chennai and we expect depreciation to be at the current level going into the next quarter. Interest cost increased primarily due to the reasons that I mentioned. The average debt level during the quarter was a little higher and also banks increased the MCLR in the range of 10 basis points to 20 basis points and therefore it had some impact. And last is that as we capitalize assets, borrowing to extend associated with the capital assets would also go into profit and loss account.

Overall, the consolidated profit after tax for the quarter stood at Rs. 97 crores compared Rs. 181 crores same period of last year and Rs. 121.45 crores in Quarter 2. Quarter 2 Rs. 121.45 crores also had non-operating income of about Rs. 16 crores received from our joint venture entity in Sri Lanka.

And we are happy also to inform you that during the quarter, the credit rating agency CARE carried out annual surveillance and affirmed rating of AA for the long term and A1+ for the short term with a positive outlook, which is a move from the neutral outlook that they had taken in the previous year to a positive outlook. And as you would recall, we had shared with you in the previous quarter India rating also carried out a similar annual surveillance in the previous quarter and India rating had also changed the outlook from neutral to positive during the quarter. So, both the credit rating agencies now have maintained or affirmed the same credit rating of AA for long term with a positive outlook.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Couple of clarifications, first, one you mentioned Nagpur 2-Wheeler capacity expansion is 20,000 per day. Is that correct?

Arnab Banerjee: Yes.

Jinesh Gandhi: And secondly exports?

Kumar Subbiah: I just want to clarify; Arnab had mentioned it is an enabling approval that we have taken.

Jinesh Gandhi: And secondly, we mentioned that exports are 19%, but we expect that to go to 26% in FY26 because of US ramp up, is that understanding also, correct?

Arnab Banerjee: When we start integrating the turnover from Camso, it is 100% international. It will go to 26%.

Jinesh Gandhi: Secondly, with respect to the underlying demand, we are continuing to see a fairly good traction on the replacement side, any red flag which you are seeing on the replacement demand side, given that some of the OEM side growth is moderating, any red flags on the replacement, which you are looking at from FY26 perspective?

Arnab Banerjee: The passenger side demand is modest. I must say in replacement, which is as I mentioned mid-single digits and the OEM growth also had been modest this year. But then last year, OEM growth has been good. So, the base is high, the vehicle part is high. So, we will have to wait and see how the demand goes in the replacement for passenger. For 2-Wheeler, demand is very robust, especially in scooter, also in motorcycle and it is particularly robust in less than 50,000 towns. For MHCV, it is as usual in mid-single to high single digits which is pretty good actually and we expect that to continue.

Jinesh Gandhi: And the last question is with respect to our exports, so what percentage of our exports would be coming from the US now?

Arnab Banerjee: Percentage is difficult to mention. Europe will be highest for us, Europe and Latin America would be higher than US at this point of time. Even the Middle East is high. The US will become a big market for us in the next 2 years' time, with OHT leading the way and now truck bus radials and finally passenger car radials, it is not very high at present.

Jinesh Gandhi: And do you see any benefit of this tariffs which are being threatening to put on Chinese imports, given that China probably would have much higher share of tyre imported in US, so do you expect to benefit some of these tariffs actually come through?

Arnab Banerjee: We will have to wait and see because the Chinese manufacturers have also moved to newer and newer locations. You must have read about a new plant coming up in Cambodia recently, then in Mexico, right, so that continue, the competition will remain in some form or the other from different geographies, from Chinese manufacturers. So, we don't expect too much of a change for the US market in the near future.

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

Siddhartha Bera: Sir, if I am correct, you mentioned that the overall volume growth has been 7.9% in the quarter?

Arnab Banerjee: Yes, Quarter 3.

Siddhartha Bera: So, if I use that, it seems that the ASP increased sequentially has been largely flattish and this is despite a lot of price increases we have done across segments in the Quarter 3, so if you can just help us understand is it because of mix or anything else, why the ASPs are flattish?

Kumar Subbiah: You are referring to Quarter 3 versus Quarter 2, is it?

Siddhartha Bera: Yes.

Kumar Subbiah: No, Quarter 3 to Quarter 4, overall realization moved up by about 1.5%-1.6% realization per kg at aggregate level. So, in quarter-on-quarter has that additional 1%-1.5% growth in the price. See the revenue number operating income includes non-sale amount little bit. So, any moment there may not allow you to understand exactly, but please in your understanding assume that there was 1.5% growth in price overall at aggregate level. Obviously, the percentage varied depending on the category and segment, but at aggregate level 1.5% growth was there in price.

Siddhartha Bera: And towards the quarter end, what was the amount of price hike we have taken 2-Wheelers and how much increase do you expect at an overall level to further take place in the current quarter?

Arnab Banerjee: It is a very small nominal increase because you would understand that there has been no increase, I think for at least 3-4 quarters now in 2-Wheelers and 3-Wheeler. The market has been robust, so we had focused on growth. So, it is a very nominal increase of around 1% and it will be in small steps, but there will be multiple steps through Quarter 4 and maybe in Quarter 1 on 2-Wheeler and 3-Wheelers as well as opportunities in other categories.

Siddhartha Bera: Sir, basically 2 questions there, why despite a very strong demand in 2-Wheelers, we have not sort of been able to take up the prices? Is it because of competition or anything else which is sort of dealing with passengers? And second is, how much price increase do you think you will need more to probably go back to our targeted margin levels given that commodities are sort of flattening out and we probably won't see a very meaningful drop in the coming quarters?

Arnab Banerjee: Yes, it is because of the competitive situation and the growth has been most robust here. So, that is the relieving point and with commodity prices flattening out, it is actually easier to plan for a price hike than when it is going up. That is point number 2. Point number 3 is that 2-Wheelers and 3-Wheelers have a higher proportion of synthetic rubber. So, to that way, to that extent, the super hike of natural rubber was less impactful on 2-Wheeler and 3-Wheelers, but we have a gap to fulfill there, so that is why we are now intending to take it up in small steps. So, there may be 5-6 steps also to make up the pricing gap.

Siddhartha Bera: And sir, lastly, with this export push from the current segment, do you see generally if I look at the segments, export should be more profitable and now with the current depreciating as well, do you think there can be a lot of support that can come from the export markets as well?

Arnab Banerjee: Yes, so export, those 3 focus areas of EU, US and Latin, there is headwind in Latin, but US is now going to grow because we have geared up in at least two segments which are OHT and TBR with passenger going to come in FY26. Europe has started doing very well and at a very good margin in all these three focus areas of OHT, in aftermarket and truck bus radial has started moving up and passenger, we have done very well in Europe as well in Quarter 3. So, out of this three, two are definitely firing and other area we are also doing fine. So, our order book is good, so we definitely would like to grow at double digit. We have grown in double digit in Q3. We will continue to grow in double digit in Q4 and thereafter in exports, which is margin accretive as you said.

Moderator: Thank you. The next question is from the line of Raghunandan from Nuvama Research. Please go ahead.

Raghunandan: Sir, can you share the utilization level currently in TBR, PCR and 2-Wheeler?

Arnab Banerjee: TBR, Halol plant is fully utilized, and Chennai is ramping up, so it is very difficult to measure the utilization, but we are selling whatever we are producing by and large. The utilization in TBR is very high. In 2-Wheeler, which is our Nagpur plant, again utilization would be 90% kind of levels at this point of time, which is why we took an enabling approval from the board for expanding Nagpur. And passenger again, Chennai is scaling up, so we have very high utilization at Halol almost 90%-95% and Chennai is again difficult to measure because it is in the ramp up phase, but pretty high utilization, but we have a runway in front of us at Chennai.

Raghunandan: So, at Chennai, you would still have space for further brownfield expansion and fair to assume, just wanted to reiterate your stance that next 2-3 years, all the expansion will remain brownfield?

Arnab Banerjee: Next 2-3 years, Chennai, there is lot of space, you are correct, and we will continue to incrementally expand Chennai, and we have now taken an enabling resolution on Nagpur. So, we will go incremental in Nagpur also, we will keep on expanding it. And TBR, of course is in expansion phase, so yes, most of it will be brownfield. OHT at Ambernath is also brownfield, so in fact, all of it will be brownfield.

Raghunandan: And what would be the broad CAPEX for FY26? Would it be in the same range, Rs. 1,000-Rs. 1,100 crores?

Kumar Subbiah: No, see, we are in the midst of our annual planning exercise now. So, as far as the current year is concerned, I think we have clear visibility to the Rs. 1,050 crores kind of a CAPEX. Maybe we will share an update once we complete our annual planning, which has a long-term demand plan, long-term supply plan and next year's plan etc. So, we will share that maybe in the next quarterly call.

Raghunandan: And also, in terms of US market potential and assuming that over the next two years you are saying that it will become reasonably high sized portion of our exports, if you can talk a bit more on when the new products are getting introduced in the PCR space, what kind of markets you are targeting and possibly in the next 2-3 years, would you expect US to be 20%-30% of your exports?

Arnab Banerjee: Yes, US, if you are looking at the product market fit, US is a completely different market from Europe, which is again completely different from India. So, our toolkit is the same. Study the local market, gather insights, not only about the product but about consumer usage, which we did for OTR, for TBR and for PCR. And if you are saying 20%-25%, it is possible, it is not impossible to reach that kind of figure in the international business basket. Europe as a geography considering all kind of products is nearing 10% of our entire turnover, it is still single digit. So, that is the biggest area, which is growing, and US is very small now, but that is the aspiration. You are right. And the product platforms in passenger, you mentioned passenger particularly, I think 10%-20% similar to Europe, but the product platform and the performance characteristics are different. So, we have developed the full range accordingly and we will ensue on our GTM in passenger in the next financial year, FY26.

Raghunandan: Just a last question, on YTD basis, how has our market share been in 2-Wheeler, PCR, TBR versus last year?

Arnab Banerjee: TBR, there has been a steady gain, but it is very consolidated market with the top 3 players occupying a large chunk of the market. So, we are playing in balance, but we are gaining share. We are close to maybe double digit, but still in single digit, there has been a gain. Passenger is mostly steady with plus minus 0.2% up and down over the quarters. So, that is how the market share has been in the place.

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

Joseph George: I have two questions, one is in relation to price hikes, so what I wanted to understand was of all the price hikes that have taken in the third quarter, how much is reflected in the third quarter results and how much would be the flow through into 4Q, so for example, if you hike price at the end of the quarter, the entire flow through will happen 4Q, if you can just quantify that?

Arnab Banerjee: Well, I think. I don't recall if the exact month, but roughly 50% would have been reflected in Quarter 3 and would flow through into Quarter 4 and then there will be further price hikes in Quarter 4.

Joseph George: So, would like 100 bps or something flow into 4Q based on the prices that you have already taken?

Kumar Subbiah: Little less than that.

Joseph George: The second question I had in relation to the interest expense. So, for the quarter, I noticed that it spike to about Rs. 75 crores and you mentioned that average debt was higher, but closing debt was lower, but if I do a simple math which is for Rs. 75 crores for the quarter, if I annualized that, it goes up to about Rs. 300 crores, your closing debt was less than Rs. 2,000 crores. If I do a simple math there, 300 divided 2000 works to interest cost of about 15%. Even if I assume that the average debt in the quarter was 10% higher say Rs. 2,200 even then it works up to 13.5%. So, these numbers are mind boggling. So, I want to understand what exactly the cost of debt at this point and what is the direction of that number?

Arnab Banerjee: No, the finance cost that you see, interest is one of the components in debt. There are also banking-related cost, which is in that number, but not very significant. See in addition to the debt, we also have some security deposits that we have received from our dealer channel. And there is corresponding receivables also there in the current assets. So, the deposits that we get from dealers also carry some interest, so that interest needs to be, that is also part of this finance cost.

Joseph George: Debt that is there on the books, I am not referring to the deposits from the distributors, etc., but for the debt on the books, what is the average cost of debt?

Kumar Subbiah: Yes, see, it is closer to about 8%, mix of both long term and short term

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KB Capital Market. Please go ahead.

Kaushik Poddar: This Camso acquisition, will it be funded by debt or fresh equity?

Kumar Subbiah: No Camso, it will be a mix of both. Needless to say, this is fungible with debt or internal accruals, and so far in the last 3 years, most part of the CAPEX we funded through our own internal accruals, so we have enough amount of even CAPEX. During the quarter also, as I mentioned, Rs. 283 crores of CAPEX was entirely funded through internal accruals only. So, theoretically, we always assume whenever we carry out an exercise, one-third would be equity and two-thirds would be bps for the purpose of evaluation of proposals and reality last 5-6 years, if we really look at it where we have spent close to about Rs. 5,000 crores, less than one-third of that got funded through debt and more than 80% got funded through internal accruals, so it will be a mix of both, cash generated from the operations depending on wherever it is required, the operating cash flow would be deployed and with this, assuming it is 225 million overall, and some amount we will pay little later. And over a one-year period or 18-month period, only two-thirds of that amount incrementally will remain as a debt and one-third by the end of the cycle it would be done through internal accruals.

Kaushik Poddar: And as things stand today and as you foresee a little bit into the future, realistically when can we get back to that 14% EBITDA margin?

Kumar Subbiah: No, see, in a 4–5-year cycle, we always have 1 to 1.5 years where the commodity prices move very fast. In our industry, when commodity prices significantly increase within a short period of time is when margins go to the lower end of the range, which let us assume in 10%-15%, let us assume, it is towards the lower end of the range which has happened like rubber from Rs. 150 per kg to 2-1/2 quarters back touched Rs. 250 in Indian market. And similarly crude also has this tendency of suddenly moving up from $70-$100, $110 and it stays there for a period of time. Very rarely, we had occasions where commodities went down by 30%-40% at a short notice, but when commodities do go up by that level, so at that point in time, generally it takes about 6 to 9 months for us to pause incidents of any increase in commodity costs in the form of a price increase after a little bit of a correction. So, not very far from now, we were at (+14%) level, Quarter 4 of last year, Quarter 3 of last year, part of Quarter 2 of last year, we were closer to that particular range and as was mentioned in Arnab's initial introductory speech, we expect Quarter 4 raw material prices to be at Quarter 3 level stable levels. In those circumstances, when raw material prices at least stagnate, I know it is still very high. If you ask us, we feel natural rubber international prices are at least $200 higher than the level at which it should be operating, based on the relative prices of other commodities. And similarly, the crude derivative prices should have been corrected little more. This is what a common-sense logic says, but in reality, does not happen. So, when the raw material prices remain at Quarter 4 and Quarter 3 level, any price increase that we take would be margin positive. And let us assume raw material remains even at the current elevated level for 2 quarters to 3 quarters, we should get back to a slightly higher end of the range of margin and that is what we expected to be. So, if raw material remains, maybe Quarter 1, Quarter 2 level, we would be higher than the midrange, which let us assume 10%-15% level. That is where we see, difficult to predict, but that is the way it can move.

Kaushik Poddar: So, by third quarter or fourth quarter of next year, can we see our margin going to say around 14%? Is it the way we are looking at it, provided the raw material remains at this kind of level?

Kumar Subbiah: Yes, two quarters back, we were 14, and we look forward. Internally, we would always try to get it earlier. We will work towards that. While we don't want to give guide you like that, but internally that is the way direction in which we would like to move.

Kaushik Poddar: So, the takeaway I have is that from the peak of the raw material price in 6-9 months, the hike in raw material price gets passed on, is that the right way to look at it?

Kumar Subbiah: It takes that much time to pass on most part the incidence of raw material cost. That is the way it happens. Once it remains stable, it takes almost 6 months for it to be fully passed down.

Moderator: Thank you. Next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Couple of questions, one is on the capacity expansion side, we have this enabling approval for 2-Wheelers, and we have expanding capacity on the OHT side, apart from these two, any other expansion which we are either doing right now or looking to add capacities going forward?

Arnab Banerjee: Yes, I will explain the CAPEX framework, which is being consistent for some time now and will be so in future. You are right about Ambernath OHT, and you are right about enabling approval. We are also carrying on incremental addition of capacity to Chennai in passenger car tyres as well as in truck bus radial tyres, so it is all flexible, gradual. Sometimes we will do a civil somewhere, upstream equipment somewhere, downstream equipment somewhere, but our CAPEX guidance overall is bite size, which we have been maintaining. This year, it was 1050. We have not yet formed an opinion of what it will be next year, but it will be in a similar range. It will be bite size. We will never have a CAPEX plan of Rs. 3,000 crores in one year etc., going forward. So, it will all fit into that scheme of things. Right now, everything is brownfield, so very easy to manage.

Jinesh Gandhi: And for Chennai PCR and TBR, what kind of capacity addition should we budget for?

Arnab Banerjee: Chennai is a continuous process. There is no end game. For example, right now we have been talking about 20,000 that may go up to maybe another 7000-8000 that may further go up by another 7000-8000. It will go and within that 7000-8000 in a year, we may do only 2000. So, it can go up to 35,000-40,000 tyres in Chennai in the brownfield peak capacity. Right now, we are at about the halfway mark, you can say so. Truck bus radials, similarly, we are at the less than halfway mark. It can go up to maybe 3000 overall and we have approval for that from the board, but we will do it in a very measured way, in a very tight and measured way. Right now, we are about less than 30% of that figure. So, we will keep adding every year.

Jinesh Gandhi: So, TBR in Chennai would be what would be the peak capacity we can do from the current infrastructure?

Arnab Banerjee: 3000.

Jinesh Gandhi: 3000 per day?

Arnab Banerjee: That is right.

Jinesh Gandhi: Kumar, from the tax rate perspective, how should we think about the tax rate at consol obviously have its influence, but our first nine months we have seen it to be close to about 28% at consol level?

Kumar Subbiah: See the best way to understand ETR is on standalone. So, consol may sometimes be a little bit confusing and now, there is hardly any difference both in revenue as well as in profits between CEAT standalone and CEAT consolidated. Sometimes our JV in Bangladesh loss in case we are incurring or that may have a marginal impact on income tax ETR, so ETR we are close to about 26% in that range on a standalone basis. And as there are no more tax benefits available, so therefore ETR would be closer to that range only.

Moderator: Thank you. The next question is from the line of Nandan Pradhan from Emkay Global Financial Services. Please go ahead.

Nandan Pradhan: I just wanted to know your thoughts about the volume and the value growth for next year across segments? And also if you could shed some light on what is driving your outperformance in the OEM category versus the competition? How are the market share gains panning out?

Arnab Banerjee: You wanted to know the market growth for next year?

Nandan Pradhan: So, your thoughts on how do you see CEAT's volume and value growth across segments next year?

Arnab Banerjee: Next year, next calendar year of financial year, right?

Nandan Pradhan: Yes, FY26.

Arnab Banerjee: FY26, first of all, it will depend on the market growth, which I shared earlier. We would continue to push strongly on the passenger side, which is passenger car tyres and 2-Wheeler in replacement. And TBR will maintain the momentum. International business with the operationalization of the Camso, I think there will be synergies kicking in for the OHT segment gradually, maybe in the second-half of the year. So, that will be a strong focus in the sense OHT is now about 15% of our turnover. And that will almost double or more than double with the acquisition. So, lot of synergies will kick in. And OEM, you asked how it will be increased. So, in OEM, there have been a lot. It takes a lot of effort in homologation and getting approvals. Those approvals have gradually coming in now. So, in passenger car tyres across OEM, several vehicles are getting launched, some got launched in Q3, Q4, Q1, Q2 like that and that is completely visible. That could be one or two months delay here and there, or it may be preponed. So, our capacities are aligned, plant approvals are aligned. So, we have a fairly good view of how much volume and hence share of business will increase in OEM in both 4-Wheeler and 2-Wheeler.

Moderator: Thank you. The next question is from the line of Vijay Pandey from Nuvama. Please go ahead.

Vijay Pandey: Sir, there are two questions. One is I wanted to check what is like, profit and exposure in terms of natural number and synthetic rubber like, how much of the total cost will be from raw material, natural rubber and synthetic?

Kumar Subbiah: While natural rubber is easier to explain because there are not many grades of natural rubber available. There are only two different sources of natural rubber, one being India and another being imports. Largely Indian rubber is called a sheet rubber and imports at least what we do import is largely block rubber. Currently, local natural rubber prices are in the range of Rs. 190 per kg and international natural rubber prices are in the range of $1,900-$2,000 that translates to Rs. 205 per kg to Rs. 210. So, that is what happens. Synthetic rubber has different grades of synthetic rubber, one is called as polybutadiene rubber, which is PBR, then another one is SBR and within them also there are multiple grades, and the prices vary depending on the grade of synthetic rubber and generally, synthetic rubber prices currently are in the range of Rs. 150-Rs. 225 per kg varying between grades, that is the way it is.

Vijay Pandey: And sir, in terms of exposure like 30% natural number is 30% evenly distributed or?

Kumar Subbiah: In value terms, it is possible, in volume terms, natural rubber could be about 25% and synthetic rubber could be also closer to that number. In value terms, they would be close to about 30% each.

Vijay Pandey: And sir, can you please explain the capacity expansion plan of like you are adding the new capacity in the 2-Wheelers and 3-Wheelers segments, can you little bit explain about what is the kind of revenue and expectation from that capacity expansion that would be helpful?

Kumar Subbiah: I think we took an enabling approval for Nagpur. I think Arnab just explained about overall capital framework for us. We tried to create some upstream capacities available and keep on adding downstream as we see demand is the CAPEX, capital expenditure framework that we have, and our capital allocation determines how much to allocate for each of the key categories. In case of 2-Wheeler, we took an enabling approval, so that we could plan some upstream over a period of time. And currently, as Arnab also earlier mentioned about capacity utilization of 2-Wheeler plant at Nagpur, we also outsource some 2-Wheelers. We are in the range of 85%-90% kind of capacity utilization level. We can still get a little more from the existing plants. And the 2-Wheeler has grown this year well in the first 9 months of the year in the replacement segment and it is about 30% of our revenue. That is the way we see overall.

Moderator: Thank you. Ladies and gentlemen, this will be our last question. It is from the line of Garvita from Seven Island PMS. Please go ahead.

Garvita: My question is around the raw material thing. So, we have insoluble sulfur as one of the raw materials for manufacturing tyre, right? I wanted to understand what is the percentage share of insoluble sulfur in manufacturing one tyre or in total?

Kumar Subbiah: We don't have that information immediately available. If you could reach out to our Investor Relations, Arjun, we would share the details through him. Is that okay?

Garvita: That is fine.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments.

Arnab Banerjee: Thank you very much for attending the call and again wish you a very Happy New Year and looking forward to seeing you again in April.

Moderator: Thank you. On behalf of Anand Rathi Shares & Stock Brokers Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.