"CEAT Limited

Q3 FY '26 Earnings Conference Call"

January 20, 2026

MANAGEMENT: **MR. ARNAB BANERJEE – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CEAT LIMITED**
MR. KUMAR SUBBIAH – CHIEF FINANCIAL OFFICER – CEAT LIMITED
MR. AMIT TOLANI – CHIEF EXECUTIVE – CEAT SPECIALTY

MODERATOR: **MR. MIHIR VORA – EQUIRUS SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the CEAT Q3 FY '26 Conference Call, hosted by Equirus 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 then zero on your touch-tone phone.

I now hand the conference over to Mr. Mihir Vora from Equirus. Thank you, and over to you, Mr. Mihir.

Mihir Vora: Yes. Thank you, Rutuja. So good afternoon, everyone. On behalf of Equirus Securities, I welcome you all to the Q3 FY '26 Post Results Conference Call of CEAT Limited. From the management side, we have with us Mr. Arnab Banerjee, MD and CEO; and Mr. Kumar Subbiah, CFO.

So without further ado, I now hand over the call to the management for the opening remarks. Over to you, sir.

Arnab Banerjee: Good afternoon, everybody, and Happy New Year to you and all your near and dear ones. Welcome to CEAT's Q3 '26 Earnings Call. I will be taking you through the business updates for the quarter and then I shall hand over to Kumar for his remarks on financial performance, post which we will take all the questions.

The Indian tire market delivered an upbeat finish to the calendar year 2025, supported by GST revision, which has improved affordability and overall consumer sentiment. Reforms have also led to broader participation across urban as well as rural markets, both for OEMs as well as aftermarket for tires.

Overall, we believe that supportive tax policies, increasing EV adoption and ongoing premiumization trends are likely to position the tire industry for a healthy single-digit growth through FY '31, i.e. next 5 years.

Overall demand outlook. The outlook for auto sector continues to be supportive. Macro tailwinds like RBI reducing repo rate in December is a positive. Robust Rabi sowing and completion of Kharif harvest has also supported disposable cash flows and rural demand. Additionally, OEM price hike expectations have helped maintain near-term purchase activity.

In the near term, we expect replacement demand for MHCVs to be mid- to high-single digit. Any further upside could come from the annual seasonality during the summer months. For 2-wheeler, demand has been encouraging, and growth could be high-single digit.

In OEM, MHCV is showing signs of recovery post GST rationalization. Growth has been robust in Q3, high-double digit. LCV growth is expected to be similar. Increase in e-commerce and Q-commerce activity would result in better sales of 3-wheelers.

In passenger segment, near-term growth is expected to be in double digit with strong revival aided by consumer preference towards smaller vehicles and easing financing access. Growth rates in 2-wheeler are strong and expected to be in double digits. However, we have to wait for a couple of quarters to see how the impact of GST will pan out.

In international business, demand for radial CVs, off-highway tire and PCUV is strong, where India is emerging as an alternate and credible sourcing base for these tires on the back of improved brand credibility with global OEMs and replacement distributors.

CEAT Performance Q3 FY '26:

We had a good Q3 where we grew 20% plus Y-o-Y on stand-alone basis. The stand-alone EBITDA stood at INR557 crores.

Volume performance:

Growth momentum continued during the quarter over last year, 20.9% volume growth. Replacement segment has grown in about mid-teens for us, where demand came in strongly post GST rationalization in September. In OEM, we had a base effect. Last year base was not very high. So OEM has grown well as well. And international business has grown in the 20s, because of channel access improving in several geographies.

In replacement, passenger segment grew well, very strongly. Two-wheeler continues to do well over the quarters and with support coming from both urban and rural clusters, and grew in high teens.

OEM volumes grew strongly Y-o-Y basis across segment. In PCUV, we had a low base effect. So growth was optically very high in OEMs. In 2-wheeler, we continue to have a good share of business, growing in high-single digit. Farm growth in OEM was also strong, where there was a demand revival, and growth was very strong, double digits. Truck and bus radials also saw a very strong double-digit growth.

In international business, we saw growth across segments. Passenger car tires and 2-, 3-wheelers as well as in farm. In U.S., tariff headwinds persisted, preventing us from growing faster.

We have been making steady improvements across all segments and categories. In replacement market, our share of business was positive across truck, bus radial, across the motorcycle and there was some marginal drop in share in scooter and in passenger, which is much less than 1%. In OEMs, our share grew across passenger, truck. In international business, share of exports grew across all categories.

Coming to margins:

Our Q3 stand-alone gross margin witnessed a contraction of about 109 basis points Q-o-Q. This was primarily driven by increased input cost from appreciated USD. We expect commodity prices to be benign and maybe a mild increase in Q4, which gives us an opportunity to achieve a consistent margin profile over time.

Our stand-alone EBITDA stood at 14.1%. Stand-alone net profit was INR191.6 crores, which accounted for the effect of provisioning related to compliance with new labor codes.

Coming to CAMSO:

The business transition is progressing smoothly with key sales hiring completed and plant operations running steadily. On the sales front, the CEAT team is currently taking over direct customer relationships from Michelin. Majority of existing customers have approved the business transfer, ensuring uninterrupted continuity of operation.

A further ramp-up of operation from the current 50% utilization is expected to take another few quarters post adequate changes in the marketing mix.

CAMSO P&L has experienced some one-time transition cost, which will not recur quarter 4 onwards. Operating profit was in double-digits as per expectation after absorption of all operating costs. It will take 3 to 5 quarters more to control the entire value chain at the purchasing end and the sales end, and exit transition. Margin profiles will keep improving and volume traction shall increase also.

Commenting on the future trends:

Electrification, international business, premiumization and digital and AI.

During Q3, on **electrification**, CEAT consolidated its leadership with 30% plus share in OEM PCUV EV segment, and it maintained the 2-wheeler EV share at about 20%. We continue to invest in products in these two categories and we continue to get approvals for new OEM vehicles.

International: despite uncertainty surrounding the U.S. trade agreement and pricing pressure from Asian competitors, particularly in European market, CEAT Specialty Business delivered its strongest performance to date in Q3 FY '26, growing strongly in mid-20s percent and year-to-date growth also has been high teens. During Q3, we introduced 32-plus new off-way tire SKUs, and we continue to expand our product portfolio to serve as a one-stop shop for our customers.

In non-specialty, we clocked high 20s growth on Y-o-Y basis in the overall non-specialty business with strong growth coming up in passenger segment as well as in truck bus radial. Europe has been a strong geography for us, along with LatAm and Africa.

Coming to Sri Lankan operations, market challenges persisted in Q3 as Cyclone Ditwah affected operations and local competition further intensified, particularly in 2-wheeler and PCR categories. Focus here is to hold on to our already high market shares in all categories and maintain our market leadership.

Overall saliency of international business was about 19.4%. And if we consider the CAMSO turnover which is actually consumed in international markets, this figure technically works out to 23%.

Premiumization, we continuously are building upon our cutting-edge technologies in premium categories. OEM approvals in high-volume premium vehicles are building the foundation for future replacement demand. We are investing significantly to ramp up the mix of larger rim-sized tires and we continue to see gains in market share for our premium car tires across both replacement and OEM segments. Our 2-wheeler premium portfolio comprising of motorcycles, steel radials and fabric radial as well as motorcycle tires for 250cc plus bikes continue to see traction and increase in market share.

Digital and AI: At CEAT, we are committed to becoming an AI-led organization. To achieve this, we are planning to embark on a centralized data lake initiative that brings all enterprise data into one place, providing a solid foundation for AI-driven use cases across the value chain. Additionally, we are preparing to migrate to SAP RISE, which will enable next-generation AI capabilities and help achieve cost efficiency while unlocking advanced analytics and automation. To amplify this transformation, we are automating our entire budgeting process using AI/ML.

During Q3, organic traffic on our website increased 12%, while premium tire sales through leads grew 64% over the same period last year. Positive sentiments for the brand moved up by 36%, with 24% increase in average interactions per post Y-o-Y.

U.S. tariffs:

As we speak, auto component duty on India continues to be 25%. So on-road tires, TBR and PCR fall under this category. For off-highway tires, total duty continues to be 50%.

Sri Lanka is currently facing a 20% tariff and has a temporary advantage while we wait for India-U.S. agreement to reach its finality.

Capex:

Overall capacity utilization is around 80% to 85%. Our capex guidance remains constant as shared with you over the last few quarters.

Sustainability:

At CEAT, we remain committed to our net zero journey. We recently partnered with CleanMax to develop 59 megawatts of hybrid wind solar projects, provided our manufacturing facilities at Halol and Chennai with renewable energy. This marks a significant step in advancing our aim towards achieving ~60% clean energy share in operations by FY '27.

Also during Q3, CEAT's Ambernath plant for off-highway tires was awarded the gold medal at the 11th India Green Manufacturing Challenge.

Overall, Q3 closed on a strong growth note with a jump in margin in the stand-alone business, strong product pipeline and a more confident customer, and we look forward to continue this momentum heading into the new year.

With this, I would like to 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 quarter 3 earnings call. I'll share some financial data points with you all, post which we can enter the Q&A session.

Overall financial topline performance:

Our consolidated net revenue for the quarter stood at INR4,157 crores with a year-on-year growth of about 26%, aided by strong volume growth across all segments.

We are happy to share with you that the company crossed a milestone number of INR4,000 crores of revenue for the first time in a quarter and the revenue reported in quarter 3 has been the highest achieved so far. While OEM and international business grew by more than 20%, replacement grew in mid-teens during the quarter, supported by positive momentum in domestic sales post drop in the GST rates in the month of September.

I would like to bring it to your attention that consolidated year-on-year and quarter-on-quarter numbers are not comparable as CAMSO revenue numbers were not part of the previous year's quarter 3 numbers. And with respect to the previous quarter, the revenue of CAMSO was considered only for a month as the acquisition of the business happened effective from 1st of September 2025.

The stand-alone revenue numbers, which are more comparable for the quarter stood at INR3,957 crores, translating to a growth of about 20.1% year-on-year and 6.91% quarter-on-quarter. Hence, the financial insights that I will share with you today would focus more on stand-alone numbers.

Coming to operating margins:

Our consolidated EBITDA for quarter 3 stood at INR568 crores, translating to 13.7% margin. It's a 13 basis point improvement sequentially, and 317 basis points improvement year-on-year basis. While our stand-alone EBITDA stood at INR557 crores, translating to a margin of about 14.08%, a 39 basis point improvement quarter-on-quarter and 364 basis points improvement year-on-year.

Our stand-alone gross margin for the quarter stood at 39.9%, a marginal contraction of about 109 basis points sequentially, largely arising from drop in finished goods inventory and also a drop in other income, along with some impact on raw material costs.

Coming to raw materials:

During quarter 3, our raw material costs were in line with our costs in quarter 2. The crude prices remained stable and moved in the range of $60 to $65 during the quarter and the crude derivatives, which go into the manufacture of tires also remained within the same small range.

While natural rubber prices remained around $1,700 per tonne, however, it has moved up to $1,800 per tonne in the later part of the quarter. Considering our raw material costs are based on a combination of imports and local material prices with linkage to import parity, the depreciation of rupee from around INR87 to U.S. dollar at the beginning of the quarter to around INR91 to U.S. dollar now would have some impact on our costs going forward.

We expect the margin impact to be in the range of about 1% to 1.5% in quarter 4 and beyond. While the overall cost environment is broadly favorable, we continue to keep a close watch on the RM. That is, raw material situation.

Coming to capex:

During the quarter, we spent about INR254 crores. And till date, we have spent about INR673 crores. In addition, we have also had an outflow of about INR236 crores in quarter 2 towards intangibles at time of acquisition of CAMSO. We expect our normal capex outflow, excluding the intangibles that I just now mentioned, for the current year to be in line with our earlier estimate of around INR1,000 crores for the current financial year.

Our stand-alone **working capital** continued to remain negative, marginally negative. Our inventory saw a drop of about INR212 crores during the quarter, in line with our plan. And payables also dropped by a similar amount.

Our stand-alone **gross debt** stood at INR2,954 crores against INR2,944 crores as of end September. During the quarter, the company raised about INR250 crores of NCD, that is non-convertible debentures from the market and retired about INR100 crores. Both are part of the current debt.

Our **debt-to-EBITDA** on a stand-alone basis stands at a healthy level of 1.52x, which compares favorably with 1.65x that we reported for the previous quarter and our **debt-to-equity** also improved from about 0.65 to 0.63.

Coming to operational expenses:

The stand-alone employee costs during the quarter moved up from INR244 crores in quarter 2 to INR252 crores. The marginal increase is largely on account of higher level of operational activities.

We leveraged scale and that helped to manage our other expenses well during the quarter. Overall, we kept tight controls on costs, which helped in our operating expenses in quarter 3 to be at the same level as quarter 2. However, in absolute terms, it remained constant. In percentage terms, it came down from 20.7% to 19.4%, translating to margin expansion on our stand-alone profits and also after absorbing the drop in gross margins.

Depreciation during the quarter remained at the same level as that of the previous quarter.

Interest cost during the quarter increased by about INR17.88 crores, largely on account of increase in the average debt level. While debt has not moved between quarter 2 -- end of quarter 2 and end of quarter 3, the borrowings in the previous quarter moved up in the month of September. However, in the same level of debt we maintained during the quarter that led to interest cost for the quarter going up by about INR18 crores.

And we would like to bring it to your attention, during the quarter, we made a provision of about INR57.81 crores arising out of notification of new labor codes by the central government. While the changes in rules are still under review, the company made an estimate based on the understanding of new definition of wages applicable for gratuity and leave encashment entitlements of the employees as on 31st December 2025. This is reported in our financials as an exceptional line item as the cost relates largely to the past period of service of the employees.

Overall, the consolidated profit after tax for the quarter stood at INR155.4 crores, compares favorably with INR97.0 crores reported during the same period of last year and INR185.7 crores reported in the previous quarter.

Our stand-alone profit reported a higher number of about INR191.59 crores, which compares favorably with INR95.97 crores that we reported in the same period of the previous year but marginally lower than INR202.23 crores that we reported in quarter 2. The profit after tax for the quarter would have been higher but for INR57.81 crores of provision that we made towards new labor codes that I just now mentioned.

We are also pleased to announce that Board of Directors in the meeting yesterday approved INR1,314 crores of capex for our Chennai plant, which would add additional 35 lakh tires of passenger car tire capacities. We expect this capacity addition to be progressively completed by the second half of financial year 2028. The capex would be funded with a mix of debt and internal accruals as we have been doing in the past. While executing the proposal, we would continue to monitor our leverage levels and ensure that balance sheet continues to remain strong.

During the quarter, the credit rating agency, CARE, carried out an annual surveillance and reaffirmed credit rating of AA for long term with a positive outlook, and A1+ for short term.

With this, we can go over to Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities.

Mumuksh Mandlesha: Congrats on a good growth during the quarter. Sir, firstly, to Kumar sir, sir, you have said going ahead, there could be 100 to 150 bps kind of impact on the raw material increase due to natural rubber prices going up and INR depreciation. Is it right, sir?

Kumar Subbiah: Yes, that's right.

Mumuksh Mandlesha: Got it. It could come in coming 2, 3 quarters. Right, sir?

Kumar Subbiah: Yes. See, look, largely, we have visibility and cover in advance. Okay. But going into the future, considering the rupee has depreciated and a little bit of movement in the prices of natural rubber, particularly international rubber, it could come in due course of time.

Mumuksh Mandlesha: Got it, sir. And sir, on the labor code impact. So this INR58 crores is mainly for the past period. So anything from the Q3 and going ahead, how much on should we factor the impact, sir?

Kumar Subbiah: See, this is predominantly on account of change in the definition of wages. And earlier, you are aware that gratuity and leave encashment entitlements were calculated on basic salary. So with the revision in the definition of wages, it's mostly relating to the past period. But for the future, there will be an impact. Our estimate is, for a quarter is coming to a very small number. So it's not very significant going into the future. Yes, there is an impact. There is an impact in terms of incremental provision but the impact is small. Say less than INR2 crores per quarter. About INR1 crores or INR2 crores per quarter.

Mumuksh Mandlesha: Got it, sir. And sir, on the CAMSO side, can you share how was the Q3 financial performance for the CAMSO in terms of revenue and EBITDA, sir?

Arnab Banerjee: So Amit is here with us. Amit is heading the division, CEAT Specialty division. Amit will share a few details.

Amit Tolani: Yes. So the operating numbers are as expected. The top line is as per expected. What we are doing is, we are getting the relationships transitioned from Michelin to CEAT. And as Arnab informed in this call earlier, that's trending as per expectations. And the top line for the quarter is roughly at USD20 million, which is INR182 crores, INR183 crores.

Mumuksh Mandlesha: And sir, I think double digit EBITDA margin, sir, operating profit, right, sir?

Amit Tolani: Yes.

Mumuksh Mandlesha: Got it, sir. And on the, sir, U.S. market, how is the sales going there, sir? And has the Michelin or basically they have taken the price hike to pass on this duty, sir?

Amit Tolani: Yes, necessary price increases have been taken in the market. But as you're aware that Sri Lanka has a favorable tariff compared to India. It's at 20% versus 50%. So right now, the necessary tariff increases have been passed on to the consumer.

Mumuksh Mandlesha: And how is the demand, sir, in U.S. market?

Amit Tolani: Demand remains cyclical as the industry is progressing. Whatever is the cyclical impact and the tariff impact is seen. But again, as I said earlier that it's tracking as per expectations.

Mumuksh Mandlesha: Kumar sir, for this new INR13 billion capex for the PCR, how would the split of that capex in '27 and '28? And, going ahead for next year, do you see any more capex planned other than for PCR?

Kumar Subbiah: No see, largely we have factored in whenever we had shared our own outlook for the next 2 or 3 years. See look, our current annual capex is about INR1,000 crores to INR1,050 crores rate. That is what it is. As we are scaling up, you've seen in the first 9 months, our volume growth has been over 15%. And year-on-year, the growth was even 20% for the quarter but full year basis.

So from capex capacity creation point of view, we need to take into consideration the volume growth on a higher base. So it's likely that capex estimate from the next year onwards would move from INR900 crores to INR1,000 crores level to maybe INR1,000 crores to INR1,100 crores, INR1,200 crores level. We are in the process of completing our annual plan.

We will make sure that this capacity expansion-related capex outflow is within that threshold, within that overall number. As of now, we are in the process of completing passenger car capacity expansion at Chennai to take the capacity to 30,000 tires, which is under progress, okay. And this, about 30,000 to 40,000 tires capacity expansion will get completed in the second half of FY '28.

Along with this, we are also expanding our Nagpur factory, taking the capacity from 80,000 tires to 100,000 tires per day. So these proposals, that have been approved by the Board would get implemented and capex flow would be in line with the number that I indicated to you.

Moderator: The next question is from the line of Rishi Vora from Kotak Securities.

Rishi Vora: My first question is on the replacement segment in the domestic market. We have seen a very strong growth. And obviously, this month -- this quarter has been even stronger than what we have seen in the last few quarters. So is it something to do with channel filling or post GST cut, you are seeing a sudden resurgence in the replacement segment demand? And how should we think about this category growth going into FY '27?

Arnab Banerjee: Overall replacement, yes, there was some channel filling because the channel downstocked in September. But the growth is much more than channel filling. There's a genuine improvement in sentiment, especially for farm and 2-wheeler tires but also witnessed in the other categories, which is passenger car tires and in truck bus radials. How long this will last, whether this is just a pent-up demand coming through, we will know after a couple of quarters. But my view is that there will be a positive impact on demand overall in replacement.

Rishi Vora: So at least for '27, should we continue to expect at least high single-digit growth to sustain?

Arnab Banerjee: I think so. We can expect high single-digit growth in replacement through FY '27.

Rishi Vora: Understood. And my second question is on the CAMSO bit. Because last -- last to last quarter, when the management had highlighted that the CAMSO annualized revenues is roughly around $140 million to $150 million. And at least this quarter, it seems like the annualized run rate is around $80 million. So what has happened? Why the revenue has further collapsed? What are the factors for the same? And when should we expect at least the quarterly run rate to reach the earlier annualized run rate?

And the second question on the margins of CAMSO, if I heard it correctly, you said this quarter, margins were double digit. But if I just do consol minus stand- alone, then the EBITDA margin is coming out to be around 3%. So what is the discrepancy over there? Can you just explain?

Arnab Banerjee: I'll explain the top line part first. Yes, we have been saying it is 120 million -- 125 million actually. It's slightly down from 140 million-odd. But that's the full turnover, when we realize the full turnover in terms of net sales realization from the customer. Right now, in the transition phase, we are selling to Michelin, who in turn is incurring the cost of distribution and keeping a small margin transparently with us and selling it to customers. So the markdown realization is around 90, 100. A specific instance last quarter was a cyclone, which has resulted in some disruption of operation, which will be made up. It's a supply chain disruption.

So essentially, if you calculate, then it will trend to around 90, 95, 100 in terms of the reduced offtake price in the transition period. So it is trending as per our expectation. There's no discrepancy there. As far as the margins are concerned, in the operating part of the margin, yes, we have recorded double digit and it includes one-time transition cost as well as some recurring IT costs, which were incurred in quarter 3, which will stop incurring from quarter 4.

And below operating, I think Kumar, you can explain the situation in CAMSO.

Kumar Subbiah: See, I think your question was on the operating margin side. So from that point of view, we have 2 line items. One is that normal operating margin. That is what Amit mentioned to you on the double digits, which is what we realized. Because we are in the first initial phase of acquisition and change management, there are some IT costs we incurred in this 3 or 4 months' time and some other transitionary expenses, which we have booked as normal expenses, okay? So those costs are more relating to quarter 3 and maybe in the first month of the operations.

So whenever we do an internal management reporting or performance reporting, at that point in time, we remove what is specific to one particular quarter, more a transitionary is removed for the purpose of evaluating an operating performance. So if you remove it, it is a double-digit number. And most of those costs have been already incurred. And we should be able to sustain a double-digit kind of a margin going into quarter 4. But when we reported these numbers on a consolidated basis, we have taken them as expenses. We have not called them out as a separate exceptional line item. And therefore, when you read it, it appears as a single- digit margin.

Rishi Vora: And so when should we expect a normalization. Like, FY '27 hopefully should be then a normalized year in that sense?

Kumar Subbiah: Some of the one-time costs relating to IT transition, etcetera, I think we have done and dusted as of 31st December. Going into January onwards, those expenses will not be incurred.

Rishi Vora: So at least the margins, the reported margin should also trend towards double digit by '27, low double digit or...

Kumar Subbiah: I think so. No, I think you will see that from quarter 4 onwards, resultant reported margins will be in line. See, just one more point before you follow up with another question. In the P&L of that particular entity also has 2 other elements of cost. One is the depreciation cost and another one is interest cost. Interest, large part of the interest cost, it is also accrued in our books. Of CEAT India books and consolidated, it will get netted off. We have given, in the current capital structure, a reasonably large amount is taken as a debt in their books, okay, keeping in mind repatriation part of flexibility. We will recast it maybe by end of quarter 4. And depreciation cost is currently -- is still at an estimated level. I think in the quarter 4, we are in the process of assessing the life of the assets to ensure that the depreciation that we take into our books is based on real assessment of the life of the assets. Those are below operating line item point of view.

But coming back to your question, I think you would be able to see that margin visible in the reported numbers from quarter 4 onwards, that double-digit kind of a number because we are unlikely to incur those costs starting from January.

Rishi Vora: Understood. And when would this complete transfer from Michelin take place? So like today, you said that there is some markdown which happens. So when should we expect that business transfer to happen?

Arnab Banerjee: So that transfer is at 2 ends. So one is the customer transfer and one is the raw material purchase that we do. So the raw material purchase that we do will stop when we erect our mixer and calendar, which will take another 3 to 5 quarters to completely come to us.

On the front end, customer transfer has started. We have already started looking at a few customers in this quarter. It will accelerate in quarter 4 and maybe by quarter 1 or quarter 2, we should be done with it.

Rishi Vora: So then realization should normalize by second quarter next year?

Arnab Banerjee: From the front end, it will do faster. Yeah, you're right.

Moderator: The next question is from the line of Mihir Vora from Equirus Securities.

Mihir Vora: So sir, my question is a bit clarificatory in nature. So in July, we had announced a capex of around INR450 crores on the passenger car tires capacity in Chennai itself, which was roughly around 35% of the capacity then. So that is roughly 20 lakh, 24 lakh tires assuming. So now we have announced another INR1,350 crores odd capex. So is this including the INR450 crores or that is a separate one and this is something which is separate?

Kumar Subbiah: No, this is independent of that. So what we announced in the month of July was taking our capacity to about 30,000 tires per day. And that is under implementation. We hope to complete that execution in the coming financial year, by quarter 3 or quarter 4 of coming financial year. This 30,000 tires to 40,000 tires is over and above that, which will get completed maybe a year later.

Mihir Vora: Right. And sir, so basically, when we do the back of the envelope calculation here, the cost, the tonne per day cost, the capex cost per TPD comes out to be higher this time. So what has changed in the capex here?

Kumar Subbiah: Okay. See, this translates to about 140 tonnes a day. And passenger car radial tires average weight is progressively going up. So therefore, we expect our incremental requirement to have a higher level of weight of the tires. We'll have all the flexibility to produce more number of tires should the upstream capacity being higher and average weight of the tire being lower. And what we intend to do is that -- so this -- if you really look at the total capex and divided by the tonnage that I just now mentioned to you, it will be broadly in line with what we have incurred so far.

Mihir Vora: And sir, just a follow-up on this. Like our capacity expansion in the PCR category has been quite strong compared to our peers. So what steps in terms of market, in terms of pricing would we be taking like to utilize this capacity? And basically, what growth are we expecting here? Because the industry would be growing at 6% to 7% in terms of OEMs but our capacity expansion has been in a strong double digit.

Arnab Banerjee: Yes. So we are looking at growth in all 3 verticals. International is growing strongly as we keep consolidating our market share in several countries where we play, LatAm, Europe. And the U.S. is yet to play out. So we are experiencing strong growth. In domestic OEM, as I mentioned, we had exited several vehicles over the last 2, 3 years. So our base was low last year. We are getting entries in several vehicles, high-volume vehicles from across OEMs, including some EVs. So that growth is coming up. And most of that growth is coming in the OEMs in the higher rim sizes. So when that happens, the average tire weight, as Kumar explained, goes up. And therefore, in terms of tonnage, we need higher capacity. In terms of numbers, of course, we need higher capacity.

We think we have some headroom to grow our share in OEM even now, much as we are growing in this year over a low base of last year.

Coming to replacement, we are at the third rank now behind 2 more players. And there is a gap of about 3.5% to 4% between us and the market leader. So in the next 3 to 4 years, we expect to bridge this gap over a period of this time. And our ambition is to definitely go for market leadership in this segment. We have been doing well. The premiumization journey is going well.

In terms of pricing, we are actually introducing many higher technology tires such as the foam tire, which is the CALM tire, the ZR-rated tire, the run flat tire and taking the average, trying to take the average realizations up in this category. The selling price of the dealer to the consumer is also trending up. And over a period of time, with volumes, the margin profile should actually improve.

Moderator: The next question is from the line of Vijay Pandey from Nuvama Wealth.

Vijay Pandey: I have couple of questions. So when you say double-digit EBITDA margin for CAMSO, is it like, should we expect it to be around 10%, 12%? Or is it high teens of more than 15%? Because CAMSO in general, when we will have the full business, that will be at around 20% EBITDA margin, right?

Arnab Banerjee: Yes. So when we said, in quarter 3 what was it, it was just about teens, low teens, without any improvement or too much improvement in the business traction. Which is the volume traction. After the onetime costs, etcetera, are removed, gradually it will trend towards mid-teens. And we did talk about 20% and above. That will come when we take complete control of customers as well as the material supply at the back end and we start improving the capacity utilization of the factory, which is currently standing at 50%. When the volume traction comes, yes, it should move up from mid-teens to around 20%.

Vijay Pandey: Okay. And sir, now in terms of coming to the domestic market, how are you seeing the growth in the fourth quarter for all the segments, especially on the replacement side? If you can just briefly help us map the growth.

Arnab Banerjee: So fourth quarter, yes, fourth quarter seasonally is a mixed quarter. January is usually low because of winter in North and East. I'm talking of replacement, whereas March is usually high because of the onset of summer. So it's a mixed quarter, Jan, Feb, March, Usually. However, we have the positive impetus due to the GST reduction. The growth has been pretty good in the month of -- in quarter 3. We have to see if it sustains. If it sustains, we'll have a very good quarter again in Q4. Otherwise, it may moderate a little but the net positive impact of GST will remain.

Vijay Pandey: And in terms of channel inventory, they are still at nominal level for the replacement.

Arnab Banerjee: Channel inventory has normalized completely.

Vijay Pandey: Okay. Okay. And lastly, sir, if you can clarify in terms of the components about the raw materials because international rubber prices have increased. So how is the domestic rubber prices looking? And other components like carbon fiber and other oil derivative products, if you can just clarify those prices?

Kumar Subbiah: Okay. See, local prices are in the range of INR185 to INR190 per kg. So no major change in the last 3 months. It's been up and -- plus or minus in that range only. International prices have moved up by about $100 per tonne. It's hovering about $1,800, $1,810 per tonne at this point in time. The impact of currency is there on the imports. So therefore, there's a little bit of adverse impact.

Carbon black prices are expected to be a little lower in the current quarter because the average crude level prices were lower in quarter 3. And generally, the previous quarter's movement of crude and the feedstock that goes into carbon black is called as CBFS, remain a little on the lower side. So therefore, that is where it is. Generally, we have quarterly price for carbon black.

Synthetic rubber prices. And beginning to end of the previous quarter, particularly something called as butadiene that determines the synthetic rubber prices, okay, remain in a particular range. Average price towards the end of the quarter or the end of the quarter price was a little lower than the beginning of the quarter and therefore, average for quarter 4 is likely to be a little lower than quarter 3.

And steel and other prices, we don't expect any major change to happen in quarter 4. So considering synthetic rubber also has import parity kind of a pricing, some portion of it is imported, etcetera, currency could have an impact on it. So overall, our assessment is 1% to 1.5%, sequentially, the raw material basket cost could move up. It is subject to our recipe subject to categories and things like that is what our initial estimate is.

Vijay Pandey: And sir, this 1% to 1.5% headwind is primarily because coming from the currency side?

Kumar Subbiah: Yes, correct. Currency, see currency impact is about -- average about 3%. Some feedstock prices have moved up, some of them down. And considering we have already covered some portion of the raw materials, 1% to 1.5% is largely currency and a little bit of natural rubber.

Moderator: The next question is from the line of Nitin Agrawal from JM Financial.

Nitin Agrawal: Congratulations on a good set of numbers. So my question is regarding the demand in the international market, especially for OHT and agri. So where do you see demand panning out for, say, next quarter or going into FY '27?

Amit Tolani: See, our big markets for agri remain Europe, Canada, South America, where we supply to some OEMs as well as Australia, South Africa. So we continue to trend on these markets. From a tariff point of view, U.S., we have little exposure in the U.S., not significant. And so apart from U.S., all these markets that I mentioned are the markets that we shall continue to focus on for the agri business.

Nitin Agrawal: Okay. So we can see stabilization and going forward, like low-single digit growth in those markets, those categories, can we expect that?

Amit Tolani: Yes.

Moderator: The next question is from the line of Mitul Shah from PCAPL.

Mitul Shah: Congratulations on a strong performance. Sir, my first question is on replacement demand for the quarter. If you can help with some ballpark number for industry for various segments for replacement, like CV, farm equipment, PCR? And related to this, I want to understand how much would be contribution of the restocking in this as we heard from the channel check that during the GST-related challenges, initially, inventory used to be 15 to 20 days, which went down to about 2, 3 days and post GST, again, restocking started. So what would be the number in terms of the inventory at the beginning of October and at the end of December approximately? This is the first question on replacement side.

Arnab Banerjee: As I mentioned, the inventories have normalized. So if you have picked up 12 to 15 days of inventory in retail, that's the level of inventory roughly at the end of the quarter 3. So the downstocking of September was made up in the month of October itself and then we witnessed a good offtake, which was replenished. So there is no further delta that we expect in inventory going forward.

I had mentioned during my initial address that replacement demand has been strong for MHCV, high single digit. And 2-wheeler has been constantly almost double-digit kind of growth in 2-wheeler, especially in scooter tires. And passenger had been lukewarm in the first half but quarter 3 has been also mid- to high single digit for passenger car tires.

Mitul Shah: And do we expect trend to continue at least for 1 or 2 quarter for replacement?

Arnab Banerjee: We have to wait and see. I won't stick my neck out and say that these trends will continue but there will be a net positive impact. I think overall, quarter 4 will be better than first half.

Mitul Shah: Okay. Sir, second question on the CAMSO side. In this quarter, how much would be the gross margin benefit? Not asking exact absolute number but directionally? And going forward also, how do you see considering the cross currency impact as well as all other raw material retail parameters, gross margin for Q4 for CAMSO?

Arnab Banerjee: Gross margin is again moderated because we are in a transition state. So in the transition state, whatever gross margin we had expected, by and large, it is trending, barring one adjustment for steel prices, where we have taken a hit on gross margin and we are aware of that. But this will be again made up by passing on the prices to the customer over quarter 4. So we'll be back to normal kind of gross margins as we expected before the deal closed.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Just one clarification I wanted, I heard you say that there is a one-time expense that we incurred in CAMSO in this quarter, which is not expected to repeat in quarter 4. Sir, can you quantify the amount of spend that we did?

Kumar Subbiah: Okay. See, look, overall for the quarter, it would have been about 4% to 5% of the revenue, was the kind of expenses that we incurred in quarter 3 that we wouldn't incur in quarter 4 onwards.

Moderator: The next question is from the line of Mihir Vora from Equirus Securities.

Mihir Vora: So sir, just some idea on the truck bus radial or the commercial vehicle segment. We mentioned that we grew around mid-single digit in the MHCV category. But going into the segment, how are we seeing the demand sustaining going ahead? And some color on the subsegment or how are we seeing the tonnage shifts happening here? Is it moving towards higher tonnage or still we are there into the haulage segment only? Some color on that as well.

Arnab Banerjee: Are you talking of replacement market?

Mihir Vora: Both OEM and replacement, both, some color.

Arnab Banerjee: Yes. So OEM, it has shifted towards 16-wheelers as you know, and the demand is concentrated in 16-wheelers in MHCV. And there's a good demand from LCVs and small commercial vehicles also because of e-commerce and growth in quick-commerce. So that segment is witnessing very strong growth as well, high double digit, in fact, in OEM.

In replacement as well, the tires for small commercial vehicle, light commercial vehicle as well as the full range of MHCV overall is growing at a high single digit and we expect this growth rate to accelerate because the summer season is the big season for this. So March to June, this growth should hold at this level, if not more. So we expect this to grow

And MHCV has been very tepid in the first half in OEMs. It has come alive in quarter 3. So it may moderate a little but this cycle should last a few more quarters, maybe 2 to 3 quarters, up to June, definitely is what I think.

Mihir Vora: Right, sir. And sir, basically, on the replacement front also now that because of GST, we may see fleet utilization improving. So are we seeing that traction also on the ground that trucks are coming in for replacing the tires and going ahead, what do we think there, specifically on the MHCV?

Arnab Banerjee: Yes. In replacement also, we have seen some traction in the demand of tires in quarter 3, which is usually a down quarter because of onset of winter, whereas we have seen traction in Q3 to be better than quarter 2, so which is obviously because of the GST rate reduction. And how much this will sustain, we'll have to wait and see in Q4 and Q1. But as I mentioned, we should have a net positive effect vis-a-vis first half that is before the GST decrease happened.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to management for closing comments.

Arnab Banerjee: Yes. So thank you. Happy New Year once again and this is the last quarter. So we hope to see you at the end of the year with a full year performance review, and we shall share that with you. Thank you very much.

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