



“CEAT Limited

Q4 and FY'26 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day, and welcome to the CEAT Q4 and Full Year '26 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Nitin Agrawal from JM Financial Institutional Securities Limited for opening remarks. Thank you, and over to you.

Nitin Agrawal:

Thank you, Ryan. Good afternoon, everyone. On behalf of JM Financial, I welcome you all to Q4 and full year '26 results conference call of CEAT Limited. From the management side, we have Mr. Arnab Banerjee, Managing Director and CEO; and Mr. Kumar Subbiah, Chief Financial Officer.

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

Arnab Banerjee:

Good afternoon, and welcome to CEAT's quarter 4 earnings call. I'll be taking you through the business updates for this quarter, and then I shall hand it over to Kumar for his remarks on the financial performance, and then we'll have the Q&A.

For the industry, FY '26 was a year of two halves. While the first six months were moving along at a normal pace, and we had double-digit growth in the first half as well, late September proved to be a decisive turning point with GST rate reduction. This meaningfully reduced the effective tax burden across tire categories, improving overall affordability and the sentiment across aftermarket and OEMs.

Coming to Demand Outlook:

Near-term demand would be shaped by multiple variables. While annually, seasonality during summer months augurs well, the broader demand environment remains clouded by the West Asia conflict, and related fuel price expectation. Recently concluded rabi harvest should, however, improve cash flows and sustain rural demand in the near term.

As of now, as we enter FY '27, demand looks good in aftermarket, in OEMs, but there is also an attendant steep raw material price hike, which we can discuss later. Overall demand outlook is expected to moderate out, therefore, but broadly may remain supportive.

In the near term, we expect replacement demand for MHCV to be in high single digit, arising out of increased economic activity, positive seasonality and an aging fleet. For 2-wheeler, demand has been encouraging with consumption levels surpassing pre-COVID levels. Our passenger tire demand has been somewhat muted in replacement, but may increase in the coming years, post an increase in OE sales in the last year.

In OEM, MHCV is witnessing continued strength, post GST rationalization. Growth has been robust in Q4 in high double digit. Light commercial vehicle growth is also strong. In passenger

cars, near-term growth is expected to be healthy single digit and within passenger car, SUV/MPV categories are looking stronger than sedans per se.

In International Business, we are seeing signs of recovery in multiple segments, particularly across CVs in U.S. and Europe. Passenger tire business is also strong, particularly in Europe. However, geopolitical uncertainties remain a key monitorable. Sales to Middle East, obviously, have been severely impacted in quarter 4.

As we are entering a steep inflation zone in quarter 1, we will see progression in demand by the end of quarter 1, moving into quarter 2, but the basic fundamentals otherwise remain strong.

As far as our financial Performance goes:

We had a good quarter 4 where our revenue grew 18.2% Y-o-Y on a standalone basis.

For the full year, we have been maintaining that we are looking at an overall double-digit growth. Happy to share that, on a full year standalone basis, we grew by 15.5%. Also, standalone EBITDA stood at INR587 crores, significantly crossing the INR500 crores milestone and also the INR2,000 crores milestone in a year.

Growth momentum continued in quarter 4 over last year. We had an 18.2% value growth. Replacement grew in mid-teens. OEM also grew around mid-teens, and International Business had a very strong quarter in quarter 4. We have grown in off-highway tire and passenger category tires in Western Europe very well.

In Replacement, 2-wheeler continues to do well and grew strongly in the mid-20s in quarter 4. Truck, bus and farm also came back strongly in quarter 4, where growth rate was in low teens. Replacement PCUV grew in mid-single digit in quarter 4. But on a full year basis, the growth was slightly better.

In OEMs, we had a healthy growth. Passenger car segment saw very high growth, where we had a lower base as well, and very strong double-digit growth with significant share in premium vehicles. In 2-wheeler, we maintained our strong single-digit growth even in this year. Farm growth in OEM continued to show resilience, again, strong double-digit growth here. Truck bus saw low double-digit growth in quarter 4.

International Business came back very strongly, across segments. Passenger car tires in Western Europe, U.S., across the markets, very strong growth. 2, 3-wheelers, again, we ventured into new markets, and the base is small. So growth looks very impressive. Farm was also pretty good in quarter 4. So overall, I think across farm, 2, 3-wheeler and passenger, the growth was very, very strong. In truck & bus radial also, we had a decent growth, but not as strong as the other three segments.

Share of Business:

During quarter 4, on a full year basis in Replacement market, our share of business was positive across categories. In PCUV about 0.5% up; in motorcycle, about 1% up; in scooter, it was flattish over quarter-on-quarter; in truck bus radial also about 0.5% up in replacement.

In OEMs, in quarter 4, we grew in scooter in terms of share. And we were slightly down in passenger car segment, less than about 1% down, and about 1% down in motorcycle, but these are minor adjustments in terms of models and production ramp-up and the fitments that we have in those models. In truck bus radial also, it was slightly down for the same reason.

Quarter 4 Margins:

Gross margins were almost similar to quarter 3, about 19 basis points down Q-o-Q. Our raw material prices in Q4 was slightly higher than Q3, but in Q1, it will shoot up to 15% plus. By end of Q1, we may reach closer to 20%. So this is a steep increase over a span of 3 months. And the outlook is that we can manage only a small portion of it through cost optimization.

So, price increase is an imperative. In OEM, the price increase comes with a lag. So 1st July will get a big increase. We have got a small single-digit increase in quarter 1. In replacement, we have already taken, between March and April, and by April end, we will be about 5% up. We need to take another at least 5% price hike through the month of May and June, which we are planning. In international business, we have been taking up prices in stages, adding up to close to 10%, but there is an order base which we have, which is at least about 30 days. So the pass-through in terms of execution and realization will take some time.

In quarter 4, our EBITDA margin stood at 14.6%, and 13.4% for the full year, and we have been pretty much consistent through quarter 2, quarter 3 and quarter 4 as we always try to be. Our standalone net profit in Q4 was INR283 crores and INR812 crores for the full year.

As far as CAMSO is concerned:

The operations are continuing smoothly. The production was affected due to non-availability of fuel locally for some time in Sri Lanka. And overall revenues for CAMSO was similar to quarter 3, down about 5% from quarter 3. As you are aware, the CAMSO business is in transition and will continue to be in transition for at least 4 more quarters. At the outset, we had said 4 to 6 quarters, so 2 quarters have gone.

By end of FY '27, the entire value chain may be under our control. By end of first half, the sales side, which is the customer interface should be in our control. However, the purchase side, where we are buying compounds, it will come to our hands only when we erect the upstream equipment of calender and mixture, which is expected to happen by end of quarter 4. So that's how it is in CAMSO.

As far as the other trends are concerned:

Electrification, International Business, Premiumization and Digital, I shall brief you shortly on that.

Electrification: We continue to focus on market shares in OEM on electric vehicles. In passenger, we are sitting at about 29% share. And in 2-wheeler, it's about 18%. And we are participating in almost all the new launches that is coming up in 4-wheeler and 2-wheeler in the domestic market.

International Business: In international markets, our saliency has improved from 19% to 20.4% in quarter 4, which is on a standalone basis. And along with CAMSO, it has gone in excess of 23%. And this is an important metric for us as I have mentioned that this is a margin attractive business for us.

About 130-plus new off-highway SKUs were launched, which gives robustness to our product portfolio. We have set up overseas entities and branches in Germany, U.K., France and Poland to build a more permanent localized presence in these and adjacent market.

In the non-specialty business, we have clocked high growth in the 20s in quarter 4, on Y-o-Y basis... in the high 20s. This was despite the fact that substantial headwinds this year we faced from U.S. tariffs initially, and the recent geopolitical unrest in the Middle East.

Premiumization: We have been continuously focusing on 17-inch plus sales of passenger vehicle. The saliency and market share in that segment has significantly improved in Q4 over Q3. Our sales in the 2-wheeler premium segment, which is 250cc plus vehicles have been also increasing consistently, and Q4 reached a new high in terms of these premium sales as well. In truck bus radial also, we have started premiumizing, which we have launched a couple of absolutely top-of-the-line premium products, which gives a lower TCO to our customers.

Digital and AI: our digital transformation continued to advance in Q4. Building our AI capabilities, our focus is on democratizing the AI capability across the enterprise and driving value at scale. We want to make it accessible and practical and embedding it into day-to-day workflows and decision-making.

To enable this shift, we are strengthening our data and capability foundation. Q4 included a kickoff of our centralized enterprise data lake, bringing core data onto a single governed platform alongside the initiation of our transition to SAP RISE to unlock advanced analytics and AI-led efficiencies.

We are also instituting a data governance council for responsible and compliant use of AI and setting up an AI labs as a Center of Excellence to anchor innovation and upskill our workforce. Together, these initiatives will support a structured and scalable approach to AI adoption across the organization.

U.S. Tariffs:

U.S. tariffs on on-road tires, which is PC/UV and truck bus radial, our tariffs continue to stay at 25% incremental, plus the original tariff of around 4%. In OHT, it has been reduced from 50% now to 10%. And as we know, there's a court order in terms of refunding this tariff. So we are following up to see what happens in OHT. No such refunds, etc., are applicable to on-road tires because that was Section 232 tariffs, which are not reciprocal tariffs.

Capex:

Our capacity utilization is on the higher side right now in 85% to 90% range across the categories. Looking at the current situation in quarter 1, we are going with absolutely mandatory capex, about maybe INR200 crores to INR250 crores. For our growth capex plus our normal capex, we need about INR1,300 crores to INR1,400 crores capex during the year. We'll calibrate our approach as we go along quarter-to-quarter.

Sustainability:

We have received SBTi validation for company-wide emission reduction aligned with science-based net zero targets, focusing on energy efficiency, clean energy adoption, responsible resource use and continuous performance monitoring.

During Q4, our Halol plant was formally awarded SA8000 certification, which is concerned about social accountability. Gradually, we'll cover the other plants also with this certification.

We achieved S&P Global ESG score of 69/100 in 2025 Corporate Sustainability Assessment, which places us in the top 4% of companies in ATX auto component industry globally.

Overall, FY '26 proved to be a robust growth year and a good year for profitability as well. As we enter FY '27, while input cost inflation presents a near-term headwind, structural demand drivers remain in place, providing the resilience and momentum needed to navigate this phase and sustain future growth.

With this, I would like to hand over now to Kumar for his remarks.

Kumar Subbiah:

Thank you, Arnab. Good afternoon, ladies and gentlemen. Thank you all for joining our quarter 4 FY '26 earnings call. I'll share some further financial data points with you all, post which we can enter the Q&A session.

Coming to Overall Financial Performance:

We ended the year and quarter with some key milestones relating to revenue. Considering our consolidated numbers for the current year include our acquisition of CAMSO business during the course of the year, I would like to call out our standalone financial numbers in parallel so that the comparison of our performance versus last year come out more clearly to you all.

Our consolidated revenue for the quarter stood at INR4,219 crores and standalone revenue stood at INR4,036 crores. Our standalone revenue grew by 18% year-on-year basis. We would like to inform you that our standalone revenue crossed an important milestone of INR4,000 crores in the quarter for the first time in the preceding quarter.

Our full year consolidated revenue stood at INR15,678 crores and the standalone revenue for the year stood at INR15,215 crores, and the standalone growth was about 15.5% on a full year basis. Here again, our standalone revenue crossed an important annual milestone of crossing INR15,000 crores for the first time during the year.

It is important for everyone to note that our revenue grew in double digits in all the 4 quarters of the year. The growth in the second half of the year was higher than the first half of the year, as Arnab mentioned, largely benefiting from the drop in GST rates for vehicle manufacturers, particularly 2-wheelers, and lower in passenger costs and also reduction in GST rates on tires from 28% to 18% for most of the tire categories and except in case of foam tires where the rate reduction was from 18% to 5%.

The growth was driven by a combination of both volume and price. During FY '26, the replacement business delivered a strong double-digit growth, while the international business came back strongly in the second half of the year, delivering high teens over the last year, and OEM registered a 20% plus kind of a growth, laying a healthy foundation for the future replacement demand.

Coming to Margins:

Our standalone gross margin for quarter 4 stood at 39.7%, a marginal contraction of about 19 basis points sequentially. While raw material prices went up towards the end of the year, the raw material cost for the quarter more or less remained in line with the previous quarter and also as shared by us with you in the last quarter in terms of our own forecast.

Coming to EBITDA margins, our consolidated EBITDA for quarter 4 stood at INR598 crores, translating to about 14.2% in margin percentage terms, and our standalone EBITDA stood at INR587 crores. It's a 51 basis points expansion sequentially and expansion of 299 basis points on a year-on-year basis.

For the full year, our consolidated EBITDA stood at INR2,063 crores, translating to 13.2% margin. Our standalone EBITDA stood at INR2,042 crores, which is a 214 basis points improvement versus FY '25. This marks a significant movement for us as our continued efforts and prudence propelled us past the INR2,000 crores EBITDA milestone for the first time.

Coming to Raw Materials:

Arnab had already shared the details at a very high level. During the beginning of the quarter 4, the crude prices were hovering around \$65. However, it surged past \$100 per barrel mark by the beginning of March, and continue to operate at these elevated levels. As we speak, the crude is currently hovering around \$107. Unlike previous quarters where volatility was driven by sentiment, we are now navigating a scenario of actual and physical disruption.

With regard to natural rubber, while the international prices remain subdued at around \$1,700 in the previous quarter, however, in the current quarter, it started with \$1,800 level and gradually now hovering around \$2,050 to \$2,100 per ton. With the linkage to import parity in the domestic prices of natural rubber and also on account of depreciation of rupee, the natural rubber prices in India has gone up from INR190 per kg level in the beginning of quarter 4 to around INR245 per kg as we speak now.

Rupee has remained volatile and further depreciation in quarter 4 from around INR90 to INR91 to \$1 to around INR94 to \$1 now, would also have additional impact on our costs going into quarter 1.

During quarter 4, our raw materials were broadly in line with quarter 3, as I had mentioned earlier. We benefited from lower cost inventory during quarter 4. The full impact of the recent increase in raw material costs will materialize in quarter 1 of the current financial year, which we would try to manage through a combination of price increase and cost management in the first half of the year.

While we remain vigilant in our procurement strategies, the combination of new geopolitical risk premiums and physical supply constraints requires, thus, more rigorous monitoring of all of these developments on a day-to-day basis.

Coming to Capex, Working Capital and Debt:

As Arnab mentioned, our planned capacity utilization levels are high at 90% plus level. We stepped up our capex in quarter 4 to INR407 crores for the quarter, higher than around INR200 crores to INR250 crores of flow in the previous quarters. Overall, our capex was about INR1,076 crores in FY '26. The capex was higher in quarter 4, was to ensure that our capacity additions happened in line with our demand in the current year as our utilization levels are high. In addition, we also had an outlay of about INR236 crores in quarter 2 towards acquisition of intangibles with respect to CAMSO.

On a standalone basis, the working capital increased by about INR108 crores as compared to quarter 3. On a full year basis, the operating working capital moved from minus INR31 crores in the beginning of the year to plus INR108 crores, an increase of INR139 crores. This is mainly on account of accumulation of some GST credit balances in 2 of our states to the tune of about INR120 crores, plus an increase in receivables on exports due to longer cycle time involved in exports and increase in dues from some state governments with respect to incentives. We are taking necessary steps to ensure that we get back to negative working capital zone soon.

Our consolidated debt stood at INR3,011 crores and standalone debt stood at INR2,961 crores, very similar to the level that we were in as of the end of quarter 3. Our debt to EBITDA on a consolidated basis stands at a comfortable level of 1.46, down from about 1.58 as of quarter 3, and debt to equity is about 0.60.

Our balance sheet is strong enough to provide and continue to provide growth capital to the business.

Coming to Operational Expenses:

Our standalone employee cost declined marginally in quarter 4 compared to previous quarter and consolidated increased by about INR18 crores, largely attributable to additional manpower hiring that happened at CAMSO.

During quarter 4, other expenses as a percentage came down from 19.6% to 18.5%, translating to margin expansion on our profits. The drop was also on an absolute basis has decreased by about INR34 crores sequentially due to lower outsourcing and other operating expenses. Overall, we kept tight control on costs, which helped maintain our margin profile during quarter 4 despite inflationary scenario.

Depreciation and Interest:

Depreciation at consolidated level for the quarter remained at similar levels as that of the previous quarter. Consolidated and standalone interest came down by about INR20 crores, largely on account of lower interest on security deposit and also on account of average debt level being lower in quarter 4.

Overall Profitability:

Overall consolidated profit for the quarter stood at INR243.8 crores, which compares favorably with INR98.7 crores during the same quarter of last year, and INR155.4 crores in the previous quarter. Our standalone profit for the quarter stood at INR283.6 crores, again compares favorably with INR100.4 crores that we reported during the same period of previous year and INR191.6 crores in quarter 3.

Our quarter 4 profit after tax included amount of, after adjusting an amount of INR10 crores of exceptional item towards voluntary retirement scheme option provided to our employees in one of our factories.

Overall, the company reported a profit after tax on a full year basis INR812.72 crores on a standalone basis and INR697.24 crores on a consolidated basis, translating to an EPS of INR201.17 per share on a standalone basis and INR172.78 on a consolidated basis, respectively.

We're also pleased to inform you that our Board of Directors, in the meeting yesterday, recommended a dividend of 350% for the financial year 2025 to '26, which translates to INR35 per share. The dividend will be paid post obtaining the formal approval of shareholders.

Thank you once again all. With that, we can now open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, first question is on the commodity side. So you mentioned 15% RM cost increase in the first quarter. Possible to highlight, I mean, does that fully reflect the current RM, which you said about rubber being at 250 and crude being at 110, or what level does it represent? And if we look at the current commodity prices, how much more increase do you think can happen on the cost side for our basket maybe in the next 1 or 2 quarters?

Kumar Subbiah: Okay. Now first of all, I would like to clarify the situation is dynamic. Just now we mentioned crude is \$107. If we have had this call a week back, we would have also said crude is \$95 or \$94. So therefore, it's a dynamic situation. Considering we buy raw materials or cover ourselves

on an average over a period of next 3 months, including imports, our visibility with respect to our current quarter is generally... is reasonable.

So based on inventory that we are carrying and including both raw materials and finished goods, plus the raw materials that we have ordered, we feel that raw material cost increase in quarter 1 could be to the tune of 15%. But if we were to take a replacement cost of raw materials today, the number could be a little higher than 15%.

But I think we should wait and watch beyond quarter 1 in terms of what impact we could have. So it entirely depends on how things unfold during the balance part of the current quarter for us to get a visibility of quarter 2.

Siddhartha Bera:

Understood, sir. And on the price increase, if you can also talk about till now, what has been the cumulative price increase, maybe till June, you look to take? I mean, you talked about 5% or mid-single digit till April and another 5% by June. So does that mean in quarter 1, we can potentially take, till the end, about a 10% price increase or you think it will be more staggered and visible over the next 2 quarters?

Arnab Banerjee:

So, we need to take overall 10% vis-a-vis March, in replacement. Out of that, about 5% can be considered as taken already between March and April. That leaves the balance of 5%, which will be staggered through May and June. It won't be one shot. It is also dependent on how the competitive situation plays out, how the demand plays out. So we need to take another 5%, and we intend to take another 5%, so that's what is being said, in a staggered manner through May and June.

In OEM, it is indexed. So we have got one index price hike, which is a low single-digit kind of price hike. This is the index on 1st of April. On 1st of July, we will get a heavier price hike, hopefully, based on the index. So there will be a lag.

And in international business, again, we are trying to cover up the entire 5% in terms of announcements, but the pass-through and execution and realization will take 30 to 45 days because of the order base that we keep holding. So, it will not again be a single. I think we have already taken 3% to 5% in international. Another 5% announcement is being made in maybe 1 or 2 weeks' time. So, it will gradually pass through over the... until the end of quarter 1, hopefully, to the extent of around 8%. We'll have to see what is the order base and what is the pass-through. So that the plan.

Siddhartha Bera:

Understood, sir. Sir, second question is on CAMSO. I mean we have seen probably some of the execution getting stretched out. If you can give us some color in terms of the revenue ramp-up. I mean we earlier expected maybe second half, we do see a stronger pickup as we would have been operating now for around a year.

So when should we expect some of that revenue ramp-up to happen? And maybe in FY '28, what are the production levels you are targeting for CAMSO? And similarly, on margins, do you expect a double-digit sort of margin target achievable by the second half or FY '27 or that may also take longer?

Arnab Banerjee:

Yes. So the CAMSO business is with us right now in transition phase. So let me just refresh what is the transition phase. In transition phase, we sell the goods to Michelin and not to our customers. And Michelin sales team is selling it to the customer. So about 25% to 30% margin of the overall value chain is sitting there. Then, at the back end, we are not buying the raw materials, we are buying compounds from Michelin because the plant, as we acquired, didn't have the upstream equipment of mixer and calendar. This will take... I'm first talking about the back end... this will take at least 6 quarters, 4 to 6, we have been saying, so which means we took over the business in September '25. We will be able to complete this job by March '27. So that is roughly about 6 quarters. And the front room, the activity will accelerate faster. We are planning to take over the customer interface to the extent of about 90% by September '26, which is by the end of quarter 2.

Now what we can look forward to, therefore, once we take over the customer interface, the entire sales and marketing setup will be in our hand. We are almost done with setting up the field force. Some more recruitments are still being made. So that is the time when we can look at interacting with our customers in aftermarket and OEM, and taking up the turnover. The volume increase and the value increase can only happen, therefore, in the second half and not prior to that when Michelin is handling the customer.

Within aftermarket and OEM, we expect to stabilize and grow in aftermarket faster. In OEM, as you can understand, we'll have to do the new product development, get on to the new vehicles from the OEM. So it will be slightly later, maybe in FY '28, the growth of OEMs will start coming. But aftermarket should start happening in the second half of this financial year. That is as far as growth goes.

The fixed costs are more or less fixed. When we talk of margins, we have started activating the marketing campaigns, we have started setting up the network, which is warehousing and local field people in Europe and in the U.S. We have also started recruiting, as I said, the sales guys, we have started recruiting the R&D guys also. So all these costs, we will start incurring even now when sales is not going up so that we are completely prepared in the second half to take sales up.

And finally, at the end of this year, in FY '27, when the equipment are also established in the factory, we'll gain that part of the value chain also. So, the turnover will start increasing in second half of this year. Margin will start getting impacted by FY '28.

Moderator:

We take the next question from the line of Raghunandhan from Nuvama Institutional Equities.

Raghunandhan:

thank you for the opportunity. Few clarifications. Firstly, for Q4 FY '26 standalone, sir, can you please share the volume growth Y-o-Y and also the growth for OEM, replacement and exports?

Arnab Banerjee:

Volume growth Y-o-Y is close to 20% overall, right, quarter 4 to quarter 4. And the growth across the segments have been pretty much uniform, a little higher in international business, in mid-20s, and it is about mid-teens to 20s for replacement and OEM.

Raghunandhan:

Got it, sir. And second on CAMSO, would the U.S. tariffs now be at that same rate of 10%, or would there be a different tariff?

- Arnab Banerjee:** No, it will be... the tariff will be at 10% and the metals part of tracks, which is a little metal clip that goes on the undersurface of the track, that will be tariffed at 25%.
- Raghunandhan:** Okay, sir. But the tracks would be what percentage of revenue, sir for CAMSO within U.S.?
- Arnab Banerjee:** Tracks is roughly 50%.
- Raghunandhan:** Noted, sir. Got it. And in terms of export markets, how much would be our Middle East exposure? Would you expect that to be an overhang for growth in FY '27? Or would you expect double-digit growth to continue for '27?
- Arnab Banerjee:** Yes. So Middle East is about 15-odd percent for us. So that will be a little uncertain. It was practically 0 in quarter 4. And then towards the end of quarter 4, it's also... it may not be 0, but it won't be 15%. But as I mentioned, our international business basket is widely diversified towards Southeast Asia, Europe, U.S. and also LatAm. And if you look at the global potential, we are a very small player in that perspective. So we have tremendous potential for growth. If we had Middle East, the growth would have been higher. But I think we'll be able to make up Middle East like we did in quarter 4. Quarter 1 outlook order base-wise looks good after completely discounting Middle East. So whatever comes from Middle East will be a bonus.
- Raghunandhan:** Noted, sir. That's good to hear. And for FY '27, what would be the total consol capex expected, sir?
- Kumar Subbiah:** Okay. So, India overall, I'm excluding CAMSO, our capex would be about 25% more than what we had incurred last year, which is about INR1,076 crores was our last year. So it should be in the range of INR1,350 crores to INR1,400 crores for India.
- We would be frugal and careful in quarter 1, considering current situation, and we'll scale up as we go by, once things normalize. But this is a kind of a number that we have in mind so that we are able to create capacities to meet our demand.
- And as far as CAMSO operations are concerned, I think we have shared it in the past. And just now Arnab also, in response to another question, spoke about creating an upstream facility to be ready by March next year. We had estimated that capex to be around \$30 million approximately. And out of that, maybe three-fourths of that we would be spending in the current year in terms of cash flow, in that range. So that will be in addition to this number. And the number relating to upstream was part of our capex estimate in the business case itself.
- Raghunandhan:** Noted, sir. This is very helpful. Just a last question. How are you seeing the competition scenario in terms of price increases, given that industry is going through tough times? Are you seeing players across categories taking price increases or is there any worries that there could be delays in the price hikes?
- Arnab Banerjee:** So the market is competitive. It's difficult to predict. However, so far, what I have observed is that price increases are coming through, much delayed by some competitors, but at different categories at different dates, some price increases have definitely come through in the month of March & April.

Moderator: We take the next question from the line of Mumuksh Mandlesha, from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Sir, generally replacement market, we have seen, past grew in the single digit to high single digit. In Q3, we had the postponement demand from Q3. But in Q4 also we sustained very strong demand. Is it partly, sir, due to some reason like because there was price hike expected in Q1, so there was some preponement of demand or generally, you saw better demand due to GST?

Arnab Banerjee: No, that, I can answer categorically, there was no impact of expected price hike in quarter 1 on the quarter 4 sales. And even March-end price hike was not like 5%. It has been staggered through the month of March and April. The entire 5% that I talked about. So, it is the GST decrease-led momentum that has carried forward from quarter 3 to quarter 4. Also, this is true because it is across category, and it is across markets. So it's a secular demand increase and not something which is particularly fixed on a certain geography market combination. So it is because of that momentum.

Mumuksh Mandlesha: Got it, sir. And sir, now in the Q1, in the April month, with the war environment and with kind of price hikes happening, I mean did you see any change in the pattern? Is it become more softer now, sir?

Arnab Banerjee: So quarter 1 usually is a good quarter in terms of consumption of tires, especially in the commercial segment. And then by end of quarter 1, with the onset of monsoons, the passenger segments also pick up. So generally, it is a good quarter demand-wise. So the momentum of Q3, Q4 continues into quarter 1 exactly like it was. So that's number one.

However, because of the steep price increase of raw material, we have been able to pass on only half of that, right? Even that, a little bit of it is happening in the last week of April. So the full impact of price increase has not yet been experienced by the market. As it experiences 5% to 10% price hike through quarter 1, we expect some moderation of demand.

Mumuksh Mandlesha: Got it. So great to hear that demand continues the same. Sir, just on the CAMSO side, because with the lower duty, in the end market, are you seeing a better demand trend? And also, just want to understand how this raw material inflation impacts the CAMSO margin, sir, how that pass-through would happen? And anything on the freight cost increase there also?

Arnab Banerjee: So freight cost increase is 2 to 3x in several markets. Normally, that is recovered through a freight surcharge, which we are doing across categories. The lower demand... the lower taxes resulting in higher demand in U.S. market is not very much evident to us because we are not handling the customers directly, as I mentioned. So once we start handling the customer interface directly, I think we'll be able to leverage such changes much better. So right now, it's not very much apparent.

Mumuksh Mandlesha: And just on this RM inflation for CAMSO, how would the margins be passed through?

Arnab Banerjee: So that happens more like the OEM sales. There is a periodic assessment index-wise -- material index-wise, and that is how the pricing is adjusted between us and Michelin. On both sides,

because we buy compound from them, we also sell them the finished goods. So on both sides, adjustments happen.

Moderator: We take the next question from the line of Rishi Vora from Kotak Securities.

Rishi Vora: Just a follow-up on the pricing scenario in the industry, and particularly just talking about the leader, MRF. At least so far, what I have picked up is they have taken select price hikes in LCV and maybe farm segment, but nothing much have been taken in 2-wheeler, PCR and CV segment. So, is that understanding correct? And let's say, if in next quarter, let's say, next couple of months also, if they don't take price increase, will it be easier for us or we'll also rethink our strategy on pricing because at least on the 2-wheeler side, they are the... let's say, 2-wheeler and CVs, they are like top player, right? So what's our thought on this?

Arnab Banerjee: So a couple of corrections. MRF has taken price increase in all the segments to the best of our knowledge, including 2-wheeler and passenger. They took it in a staggered manner, but it has come through.

Rishi Vora: Okay. Understood. And what would be the quantum of that?

Moderator: Ladies and gentlemen, we have lost the line of the management. Please stay connected while I reconnect the management. Ladies and gentlemen, thank you for your patience, we have the management line reconnected. Rishi, if you could please repeat your question?

Rishi Vora: Sure. Just on the MRF question, sir, do you by any chance, do you have an idea of what quantum of price increases they have taken so far?

Arnab Banerjee: About I think, 3%, 3.5% they have taken, roughly. I don't recall category-wise, but that's a good estimate.

Rishi Vora: Understood. Secondly, let's say, just thinking about demand from, let's say, beyond first half, if we take a 10%... if you're able to take a 10% price increase and especially in the CV segment, which is relatively more price sensitive, now how should we think about demand?

Because second half, the base will also become pretty high for us, given that, for second half of FY '26, we have seen a very strong healthy double-digit growth, is there a risk that the industry itself may decline in second half, given 10% or whatever quantum of price increase plus the base itself, on the replacement side?

Arnab Banerjee: So, on the replacement side, the reduction of GST is a tailwind definitely towards...in all categories, number one. Number two, the vehicle park is increasing significantly because of higher sales of old vehicles, right? And in the truck bus segment, as you would appreciate, the replacement, the life cycle of the tire is much shorter unlike the passenger segment.

So if the overall goods movement, which is again dependent on the GDP growth, if overall goods segment is not impacted too much, if there is... the fuel prices... price hike is moderate, so there are many things that are involved, right?

So if the trucks are plying, if the rates are holding, the remuneration rate for the truckers, they will replace tires. So we expect moderation in demand, but it's not like... we don't expect a degrowth in truck bus radial tire even after a 10% price hike. But definitely, it will slow down.

Rishi Vora: But, sir, what explains such a strong growth in second half, right? If GST is the trigger where there is a 10% reduction in prices and effectively now we'll be reversing the GST cut, right, with the price hike, so shouldn't there be some normalization over there? Because if GST... and obviously, the normal replacement cycle, then the ideal... let's say, the normalized growth has to be 6%, 7%. And what we have witnessed at least over the last couple of months is 15% to 20% growth. So what explains this? And if the price increases do happen, then, shouldn't kind of demand normalize back to the 5%, 6% levels?

Arnab Banerjee: You're right. So I think you were talking of the OEM demand, if I understand you correctly. Yes, that would definitely come down to single digit, the fresh truck sales. I was more talking of the truck bus tire sales. So the vehicle... so I won't repeat my answer, but I think you understand.

Rishi Vora: Sorry, sir, I was talking only about replacement, not OEMs.

Arnab Banerjee: Yes. Okay. So replacement demand will be in single digit in truck bus radial. So there will be a moderation, single digits, it may fall to low single digit also, which we are used to in truck bus radial if the 10% price hike is not adjusted in the market. But it all depends on how fuel prices behave, how the overall GDP sentiment moves. If there is a demand for movement of trucks, tires will need replacement. And tires will be replaced, the demand will come down, but it won't turn into negative territory. That's what I was trying to say.

Rishi Vora: Understood. And sir, any comments on how the growth should look for PCR and 2-wheeler replacement, like in the second half and beyond?

Arnab Banerjee: Yes. So PCR, as you are aware, was not great even in last year. The market grew by hardly 1% to 2% in replacement. Right? But again, vehicle park is coming in, but here, the replacement cycles are long. So we expect a gradual improvement in PCR, not like PCR going to 10% or 15%. Maybe from 1% to 2%, it can go to 3% to 4%. Or 5% at best.

In 2-wheeler, we have had good growth, especially in the scooter segment, scooterization, the EV, and it's supported by growth in both urban and rural markets. So, some moderation could happen because of price increase, but it should stay as per our expectation in single digit to high single-digit kind of growth across this year as well. That's the expectation in replacement.

Rishi Vora: Understood. And just last thing on finance cost and other income, right? Finance cost, how should we think about going into FY '27 with... like if the INR3,000 crores debt and 8%, 9% is the interest cost... 7%, 8%, how we should think about the annualized finance cost and what drove the sharp increase in other income this quarter?

Kumar Subbiah: Okay. Two things with respect to finance cost. See, generally, the finance cost includes interest on our debt as well as some security deposits that we have of our dealers and distributors. That interest is also part of our finance cost in addition to some banking-related expenses.

Our debt level more or less remained around INR3,000 crores for the last 3 quarters. September, we were close to about... a little over INR2,900 crores. December also similar levels and March also. I'm talking about standalone. Consolidated also not very different from that standpoint. So that is one of the reasons.

So going into the next year, of course, you have to generate enough cash to sustain debt level if we have to manage our capex program as we have just outlined. And we'll continue to be responsible with respect to leverage ratios in terms of, you know, while looking at our capex decisions and also debt level. In the normal course, we could have afforded a INR1,400 crores kind of capex for Indian operations without too much of impact on debt, maybe another INR200 crores, INR300 crores, but at much higher absolute EBITDA level, much higher revenue level is what we would have done in the normal course.

Considering that quarter 1 looks a little challenging with respect to cash that we will be generating and the margins standpoint, we will try to keep our debt levels, at least in the current quarter, similar to the level at which we ended in the previous 3 quarters.

So the absolute amount of interest remains same. And we'll step up our capex. And if that means debt level has to, a little bit, go up, we will do so in a normal margin scenario, which we hope will start from quarter 2 onwards. So therefore, you can assume, in your model, current level of debt for one more quarter, slightly higher level of debt in the subsequent quarters for the purpose of finance cost assumptions.

And with respect to other income, I think it has some component, a little bit of royalty income on CAMSO part of the operations, which is a small amount, is there. And some amount is also there with respect to hedging-related income, as we had hedged all our exposures with respect to raw materials and other revenue-related expenses. Considering the currency depreciated, there was some kind of hedging income, which is also classified as other income. I wouldn't say INR62.5 crores of other income we have reported on a standalone basis is a sustainable number. I think what we had reported in the previous quarter average would be the correct representation of our other income. And last quarter had more to do with the fact that we had currency-related gains, which is taken as other income.

Moderator: We take the next question from the line of Vijay Pandey from Axis Capital.

Vijay Pandey: Sir, a couple of questions. First, I wanted to check about the inventory days. So the consolidated has slightly gone up. So if you can just highlight what is driving that? The working capital cycle and the inventory days?

Kumar Subbiah: You want a response on consolidated or standalone?

Vijay Pandey: Both standalone, consolidated. Consolidated has gone up, that is what I see. Standalone is broadly flat.

Kumar Subbiah: Yes. Standalone is flat. Generally, our inventory level is the lowest on the 31st of March, in general. And normally, March is our best month. And therefore, from our standpoint, we generally end, the finished goods point of view, inventory at the lowest level, and we have been

maintaining at around about 24 to 27 days kind of a range is our finished goods inventory in general as far as Indian operations are concerned. And consolidated, we had a little higher amount of inventory at CAMSO. As we are taking over operations directly, we have to produce and keep the inventory with this for the purpose of servicing the other geographies. But the impact is not much. I think it's about 1,000 -- in CAMSO -- Raw material inventory was higher as of 31st March. It was higher, a little over INR200 crores, and it was done. The war was breaking out in the month of March. Okay, from supply security point of view, we decided that we will keep some extra physical inventory to make sure all our factories run on all the days. And we were also anticipating some increase in raw material costs or availability of raw material, and therefore, we decided to keep inventory in physical form with this and therefore, about INR200 crores kind of raw material inventory increase that we saw as of 31st March over 31st of December.

Generally, our inventory of raw material is also very similar, anywhere between 24 and 26 days in physical form, including all of that, including our work in progress in factories and things like that. And maybe 3, 4 days extra inventory was there as of 31st March more as a supply security.

Vijay Pandey:

Okay. Sir, our CAMSO business, I understand that we will see margin expansion probably from FY '28, majority of it. But what is your expectation for FY '27 because we'll also have a higher commodity increase. So if you can just help us understand the expectation on the CAMSO business?

Kumar Subbiah:

See, I think when we took over the business, we did share about the potential of that particular business, and at our operating level of margins the seller was operating. And we thought we would get some benefit in terms of being part of us, closer to our part of the world, there will be some synergies and things like that.

I think in the beginning of the conversation and also to a question, Arnab shared in terms of what we are doing is that full/entire value chain is not with us today. And we expect that entire value chain to be with us in the form of entire control over manufacturing as well as in terms of ability to service the customers from our own warehouses over a 12-month period of the current financial year. By end of the financial year, I think one part, customers would have.. would be serviced by us directly. By beginning of next financial year, we would be most likely producing all the products in our own factory, including upstream-related. That's where we see in terms of our plan.

And during the interim period, it is proposed to have the infrastructure ready, people ready and different locations, warehousing to do a local servicing, people to take care of sales. And therefore, this could be called as a transitional period. And therefore, during this period, we would like to have that flexibility and freedom to operate as it is necessary for the purpose of business. We'll still stick to the underlying margins based on which we acquired the business.

So during the interim period, there could be a little bit of fluctuation. As we go into the current year, we'll keep updating in terms of our own view. As of now, I think, I don't think there's any change over what we have already communicated.

- Vijay Pandey:** And, sir, on the capex side, so the INR1,300 crores to INR1,400 crores is for standalone, and additional, we expect around INR50 crores to INR100 crores on the CAMSO upstream business, right? This is entirely coming in '27 or part of it will go on till '28?
- Kumar Subbiah:** Okay. No, we have kept aside \$30 million for CAMSO for the purpose of upstream, particularly mixers, calenders. I think it won't be INR100 crores, it will be higher than INR100 crores. Our estimate is maybe about \$25 million could be an outflow. \$20 million to \$25 million as far as CAMSO goes. From our standpoint, I think we shared with you INR1,350 crores to INR1,400 crores as our requirement for the current year to ensure that we have adequate capacities to meet the demand. In quarter 1, we'll be a little careful. And subsequent quarters, if things normalize, that is the kind of capex that we would like to incur during the course of the year.
- Moderator:** As there are no further questions from the participants, I now hand the conference over to the management for their closing remarks.
- Arnab Banerjee:** Thank you very much for your interest in CEAT, and we have come off one very good year, and we are entering a turbulent quarter. So we'll do our best and see you on the other side of Q1. Thank you.
- Moderator:** Thank you. On behalf of JM Financial Institutional Securities Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.