"CEAT Limited

Q1 FY '27 Earnings Conference Call"

July 17, 2026

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MODERATOR: **MR. YASH AGRAWAL – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the CEAT Limited Q1 FY '27 Earnings Conference Call hosted by Nirmal Bang Equities 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. Should you need assistance during this conference, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Yash Agrawal from Nirmal Bang Equities Private Limited. Thank you, and over to you, sir.

Yash Agrawal: Thank you, Swapnali. Good evening. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Q1 FY '27 Earnings Conference Call of CEAT Tyres. The management is represented by Mr. Arnab Banerjee, Managing Director and CEO; and Mr. Kumar Subbiah, Chief Financial Officer. I will now hand over to the management for their opening remarks, after which we will open the floor for Q&A. Over to you, sir.

Arnab Banerjee: Yes, good evening, everybody, and thanks for coming to this call. I'll take you through the business updates for the quarter, then I shall hand it over to Kumar for his remarks on financial performance. Post that, we'll have the Q&A.

The structural consumption tailwinds triggered by last year's GST reform continued to boost domestic volumes. However, Q1 also saw a sharp escalation in input costs driven by natural rubber prices, both international and local, and also prices of crude-linked derivatives. Raw material cost increase was about 15% to 16% vis-a-vis the average of last quarter.

Demand Outlook:

Near-term expectation primarily hinges on monsoon bridging its rainfall deficit. El Niño poses a risk to rural demand on account of reduced farm incomes, and also supply chain disruptions following the West Asia crisis. Some moderation in demand may happen in Q2, but we don't expect demand to fall off the cliff.

In the near term, we expect replacement demand for MHCV to be mid-single digit. In 2-wheeler growth is expected to be in high single digits, where consumption levels have surpassed already pre-COVID levels. Passenger tyre demand is expected to be mid-single digit. Overall, rural demand has been very, very strong right through quarter 1.

In the OEM segment, demand has been very robust in some categories, even in the mid-20s. We expect demand for MHCV to grow in mid or high single digit, while OEM 2-wheeler and passenger car tyre demand is expected to grow in double digits.

In International Business, we have a strong order base despite disruption in Middle East sales.

CEAT Quarter 1 Results:

The growth aspect, Q1 continued CEAT's growth journey with strong revenue growth of 18.3% Y-o-Y on a stand-alone basis, while stand-alone EBITDA stood at INR380 crores. This is on the back of strong growth in Q3 of last year and Q4 of last year as well.

Overall performance:

As I mentioned, 18.3% value growth in quarter 1. Replacement grew in mid-teens, and demand has been strong over the last 3 quarters post GST. OEM grew in low teens, and international business has been growing very strongly almost in the 30s.

Volume Performance:

Replacement overall volume growth was robust. Two-wheeler continues to do well, backed by strong rural growth. Truck bus radials also have done growth in double digit and farm has grown in high teens as well. Replacement passenger car tyre segments grew in healthy double digit during Q1.

In OEM, we recorded the highest volume in passenger car tyres. Of course, our base was smaller. And most of the growth has come from 17-inch plus segments, which is the premium segment in OEM. In 2-wheelers, we registered a mid-single-digit growth in this quarter. Farm growth in OEM has been pretty robust, strong single digit, and truck bus growth in OEM was flattish.

International Business growth across segment was strong, particularly strong in passenger car tyre, 2, 3-wheeler as well as the Agriculture segment. In Truck Bus segment, we had a single-digit growth in international markets.

Margin scenario:

Q1 standalone gross margin witnessed a contraction of 575 basis points Q-o-Q. Our standalone EBITDA margin for Q1 stood at 9.1%. Raw material costs continue to be high entering into quarter 2, and we have been taking price increase right through April, May and June. About 7% to 8% in replacement, about 3% to 4% in OE and about 4% to 5% in IB has already been taken. We have had a strong price increase on 1st June and right through June and on 1st of July. And in July and August, we'll continue this journey.

Stand-alone profit was INR98 crores and in consolidated accounts, it was INR4 crores. This disparity or gap between the two is high in Q1, primarily because of a nearly INR48 crores impact from depreciation in Sri Lankan Rupees, LKR, on the $80 million denominated debt at the overseas entity CEAT Sri Lanka OHT, and also higher costs in our CAMSO business arising from initial investments in new warehouses, new offices, start-up costs, new hirings there without commensurate growth in revenue because it just happened in quarter 1.

CAMSO:

Our topline in CAMSO is trending at USD10 million at customer prices. This is not what we are realizing because we are selling to Michelin, as explained in earlier calls. Part of the realization goes to cover the cost and marginal profit in the hands of Michelin.

We are about to change the capital structure of CEAT towards Sri Lanka to reduce the interest burden as well as to reduce the risk of currency fluctuations.

Overall transition is happening as per plan, about 60% of the customers have transited to CEAT by end of Q1, and we expect to complete the customer transition by end of Q2. The transition from buying semi-finished goods from Michelin to buying our own raw material will take some more time. It will be completed by end of quarter 4 of FY '27. Hence, FY '28 is the first full year when we'll have control of the entire value chain. However, in second half of this financial year, we'll have control of all our customers and therefore, we'll start growing our volumes across replacement and OEM segments when we handle our customers directly.

As far as the other trends are concerned:

Overall, on the 4 trends which we keep talking about – electrification, international business, premiumization, and digital & AI – I'd like to cover a few points.

On **electrification**, our trend in owning share in OEMs continued consistently. We have about 25% share each in OEM passenger EVs and in 2-wheeler EVs. We continue to get nominated to significant new OEM launches in both 2-wheeler and 4-wheeler.

Our **International** turnover, including CAMSO was around 23% and stand-alone basis was about 20%. Despite geopolitical issues and freight rates and delivery time line disruptions, OHT business delivered a strong quarter, growing sequentially as well as on a Y-o-Y basis. We added about 10-plus new SKUs, and we got several new nominations in marquee OEMs in the OHT segment. In the Online segment, growth was robust as well, as I mentioned earlier, in all segments, including 4-wheeler as well as the truck bus radial segments. Middle East performance was, of course, subdued, but other geographies came back strongly, and our order base is pretty robust.

Premiumization, we got some good nominations in premium vehicles, and our volume and share continue to grow in the premium segment in OEM as well as in replacement market. Our brand finance rankings, where we found ourselves in the top 10 in the brand finance ranking, which is a good indicator. Overall sales volume of premium tyres, which is 17-inch plus rim size tyre grew by 100% in replacement. 2-wheeler premium portfolio comprising of radials and tyres fitted on to 250 cc plus bikes also grew handsomely.

On **digital and AI**, at CEAT, we are scaling across the enterprise and embedding it into our business processes. In Q1, we continued to expand our Agentic AI initiative to drive productivity, accelerate automation across the value chain. In parallel, we are making steady progress on our enterprise data lake program, creating a unified data foundation for AI and advanced analytics, while our SAP RISE transformation remains on track.

Our premium sales through lead generation grew 2x in quarter 1 while overall 4-wheeler sale through lead generation grew 32% over the same period last year. Implementation of agentic website increased traffic from home to product by 14%. Positive sentiments for brand moved up 46% with 16% increase in average interactions per post Y-o-Y.

U.S. Tariffs:

A short mention.. the applicable duty on auto components remains at 25% in addition to the original 4%, so total 29% on-road tyres, including TBR and PCR, this 29% applies. Off-highway tyres are subject to a lower 10% global tariff and on Sri Lanka exports also the same 10% applies. In tracks, which is coming out of Sri Lanka, the same 10% applies, however, for the metal component of tracks, which is primarily steel, it continues to attract a 25% tariff.

On the sustainability front:

We achieved EcoVadis Gold rating, which places us in the Top-5 percentile of the companies globally for sustainability performance. CEAT received best practices in Corporate Governance and Compliance Award '26 from Vault Circle, and ISO 27001 certification for its head-office, Halol, Chennai and Ambernath facilities, reinforcing our commitment to best-in-class governance. Our focus on people and transparency has resulted in employee happiness score to move up to 87% from 85% previous year.

And as we move forward, in Q2, we expect margin pressure to continue, and we expect demand to moderate a little bit. But as I mentioned, it's not going to fall off its cliff.

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

Kumar Subbiah: Thank you, Arnab. Good afternoon, ladies and gentlemen, and thank you for joining our Q1 FY '27 earnings call. I'll share some further financial data points with you all, post which we can enter the Q&A session.

First, on overall financial performance:

Our consolidated revenue for the quarter stood at INR4,318 crores with a year-on-year growth of about 22.3%. As we did not have the numbers of our CAMSO business, or as we did not have the CAMSO business in the corresponding period of last year, I would like to keep sharing our stand-alone numbers alongside consolidated numbers so that the numbers are more comparable.

Our stand-alone revenue stood at INR4,163 crores, with year-on-year growth of 18.2% and quarter-on-quarter growth of 3.2%. On a year-on-year basis, 2/3rd of the stand-alone revenue growth came from volumes and balance 1/3rd of the growth came from price and mix.

Pricing:

Pricing impact was positive across all segments during the quarter 1, with replacement and international business segments leading with price increase. So far, replacement has been receptive to our pricing actions where demand has been robust. We have affected approximately 7% increase in our prices in replacement and about 5% in international business and OEMs approximately 3%. Considering our pricing model of quarterly pricing with large percentage of our OEMs, the price increase on OEM segment is expected to be there in quarter 2.

Coming to Operating Margins:

Our consolidated EBITDA for quarter 1 stood at INR370 crores, translating to 8.6% EBITDA margin. It's a contraction of about 562 basis points sequentially and 238 basis points year-on-year. Our stand-alone EBITDA for quarter 1 stood at INR380 crores versus INR391 crores in quarter 1 of last year and INR587 crores in quarter 4. The EBITDA of INR380 crores of stand-alone translates to 9.1% of margins. Our consolidated gross margin stood at 33.9%, a contraction of about 575 basis points sequentially in the face of unfavorable raw material costs and rupee depreciation during the quarter.

Coming to raw materials:

During quarter 1, crude oil prices remained at high levels. Average price of crude surged past $100 per barrel in the beginning of the quarter in April and May. Although the June average was a little lower, supply chain disruptions remained heightened throughout the quarter.

Coming to natural rubber, the international benchmark SICOM started in quarter 1 at around $1,950 per ton and has since moved higher month-on-month. Prices averaged approximately about $2,050 in April, $2,200 in May and around $2,240 in June. We are currently hovering around $2,180 to $2,200 per ton, which remains elevated and represent a significant increase from the levels that we saw in quarter 4 and whole of previous year. In line with this movement and prevailing parity dynamics, domestic rubber prices have also remained elevated and currently hovering around INR280 per kg, which is more than last 15 years high and beyond. And domestic prices are currently at a premium to international prices in the range of INR15 per kg to INR20 per kg.

The rupee continued to weaken, and it weakened in the quarter 1 from about INR93, INR94 level to around INR96.5 to a dollar level. The depreciation also added to our cost pressure in quarter 1, and would continue to have an impact in quarter 2. So overall, as shared with you all, raw material costs surged in high teens, in the range of about 16% to 18% in quarter 1 compared to quarter 4. And moving into quarter 2, despite some recent correction in the crude oil prices, the cost pressure is likely to continue as we do not have the benefit of lower cost raw material inventory in the beginning of the quarter as we had in quarter 1. And further spike in the prices of natural rubber and currency depreciation is expected to have an impact of about 8% to 10% in quarter 2 versus quarter 1.

The commodity market continues to be volatile, which is also impacting the currency and ocean freight rates. We expect the commodity prices to stabilize once the West Asia war comes to an end, which may lead to some stability in the commodity prices, hopefully, in the second half of the year. While we have taken price increases across all segments in quarter 1 and some more in July, there is a lag between the cost increase and our product price increase, which will have an impact on our margins as we go into quarter 2.

Coming to capital expenditure, working capital and debt:

We spent about INR293 crores of capex in the stand-alone entity during the quarter. We prioritized capacity-related capex over normal routine capex during the quarter 1. Our capacity utilization has remained high on most of the categories across all our plants in quarter 1, and we would continue to invest in adding capacities and scale them up faster to support the demand growth.

As shared earlier, we intend to incur capex in the range of INR1,300 crores to INR1,400 crores during FY '27, and we would like to stick to the above plans as of now.

On a consolidated level, our working capital moved up by about INR138 crores as compared to quarter 4 and stand-alone working capital increased by about INR105 crores. The primary reason for the increase was on account of higher raw material inventory, both in volume and value. We operated with higher physical inventory during the quarter to manage the supply-related challenges and also to ensure that supply securities for our factories. We look forward to normalizing this in quarter 2. Further, there has been some accumulation in our GST balances arising out of some mismatch between GST on inputs versus output, which we hope to unlock it in the next 2 quarters.

Our consolidated debt stood at INR3,243 crores, an increase of about INR232 crores over quarter 4. Our debt to EBITDA on a consolidated basis stood at a comfortable level of about 1.6x and marginally higher over quarter 4 level of about 1.46x, and our debt-to-equity ratio remained healthy at 0.65x.

Coming to operational expenses:

Our stand-alone employee cost in quarter 1 was similar to quarter 4 at around INR248 crores level. In order to mitigate the impact of increase in raw material costs, we exercised strong control over all discretionary costs through various steps, including cutting down our discretionary expenses like travel, conferences, consulting and factory related, et cetera, which helped in keeping our consolidated other expenses at 18.6% level, similar to previous quarter despite higher marketing costs due to IPL and infrastructure costs that Arnab was talking about in overseas operations.

Overall, we kept tight control on costs between the gross margin and EBITDA lines during quarter 4 despite an overall inflationary scenario beyond just direct input costs.

Coming to depreciation and interest costs:

Depreciation of a consolidated level for the quarter remained at similar levels as that of the previous quarter. However, consolidated finance costs during the quarter increased by about INR61 crores. Arnab already explained the one part of it, which is about INR48 crores which was attributable to the depreciation of Sri Lankan currency versus dollars on $80 million loan that they received from parent entities at CEAT India, the impact of that was reflected as finance cost during quarter 1.

The Board, in order to ensure that the Sri Lankan entity is adequately capitalized, approved us to convert part of the debt into equity to the extent of about $24.5 million and to ensure that adequate capitalization of the entity at 1:1 debt-equity level.

Overall, the consolidated profit after the quarter stood at INR4 crores compared to about INR112 crores during the same quarter of last year and INR244 crores in the previous quarter. Our stand-alone profit after tax is more relatable, and one could draw inference from that better compared to consolidated number. Our stand-alone profit stood at about INR98 crores for the quarter versus about INR283 crores in quarter 4 and INR135 crores in the same period last year.

Our quarter 1 profit after tax was after adjusting about INR7 crores of exceptional costs towards extension of our current running voluntary retirement option scheme in one of the factories.

We would like to inform you that our Board of Directors in the meeting that we had yesterday approved a capex of about INR1,205 crores for setting up additional 53,000 2-wheeler tyres capacity. This is over and above the additional capacity, which is already under implementation at Nagpur. The company is evaluating various locational options for this additional capacity. We expect this capacity addition to be progressively implemented over by FY '31 in stages. 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'll continue to monitor our leverage levels and ensure that the balance sheet remains strong going into the future.

During the quarter, India Rating carried out an annual survey and reaffirmed credit rating of AA with a positive outlook for long term and A1+.

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

Moderator: Thank you very much. We have the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Am I audible.

Moderator: Yes.

Kapil Singh: Yes. Firstly, just wanted to know what is the greater than 17-inch and EV revenue share for CEAT? Is the market share here better than overall industry?

Arnab Banerjee: You mean in replacement or OE? In OE, we have an increasing share in excess of 20% and we intend to take it up a little bit higher. It won't go too much higher because of the OE policies. And in replacement, it is more or less indexed to our overall market share. The market saliency is about 13%, and it will grow to 30-40% in the next 5 years.

Kapil Singh: Okay, thanks. And secondly, on the price hikes, just wanted to understand, given the current commodity index, do we need to take further price hikes or the price hikes we have taken so far are sufficient to fully pass on the cost?

Arnab Banerjee: No, we have to take further price hikes. We have taken price hikes on 1st July also and we have got an indexed price hike from OEMs. We need to take further price hikes in replacement and international, which we are doing through the month of July and this will continue into August as well.

Kapil Singh: Okay. And just lastly on CAMSO, what is the FY '28 revenue potential when operations come under our full control?

Arnab Banerjee: Our current run rate at customer prices is about $10 million which is about $120-odd million. So we would expect to grow it from there in FY '28.

Moderator: We will take the next question from the line of Raghunandhan NL from Nuvama Research.

Raghunandhan NL: Firstly, on the requirement of price hike, would my understanding be correct that the total commodity or raw material basket increase will be about 26% Q1 and Q2 put together. So the price hike requirement would be around 15% to 16% and so far, you have taken about 7%, 8% price hike in replacement. So just wanted to understand from you, how do you see both for CEAT and the industry, how is the market and competitors responding to price hike? How much more price hikes do you expect in Q2, and your thoughts both on market acceptance and on the demand?

Arnab Banerjee: Yes. So as we speak, that 7%, 8% has moved up to 11% already. And you are right in your estimate of about 16%. So we will endeavor to take another 4% to 6% through the month of July and August in replacement. Coming to industry, I really can't predict or say anything on behalf of industry, but so far, the competition has been taking up price hikes in different measures, in different categories, a little bit here and there on dates, but the price table is moving up.

Raghunandhan NL: Good to hear that. Secondly, on CAMSO, you indicated that H2 revenue should be better as the control of or the customer transition will be completed by Q2. So H2, the growth prospects will be better. So like 2-3 years ago, CAMSO had a much higher revenue. How do you see the trajectory of the revenue levels going back to the previous peak? And how do you see H2 growth and FY '28, '29 trajectory in terms of going back closer to the earlier levels of revenue?

Arnab Banerjee: Yes, that's a benchmark that is there. That was a couple of years back, as you rightly pointed out. The H2 growth will come initially because if we start handling the customers directly, whatever the customer pays comes to us. So when we sell to Michelin instead, we get a much lower realization because the balance goes to cover Michelin's distribution cost, holding cost, as well as a little bit of margin is left with them transparently as per the transition agreement. So that growth in value sale will come at constant volume terms, so to say, in half 2. And further, when we handle it, we have some visibility of replacement growth coming back on track, not to the highest levels of which we witnessed 2 years back, but definitely on a positive move. The OEM growth will take time to recover because we need to get into the OEM programs with NPD, et cetera. So that's the situation right now. And on both these counts, we expect H2 to be better.

Raghunandhan NL: Kumar sir, if you can indicate for this Q1, CAMSO how was the margin? Because when I do consol minus stand-alone, the EBITDA is negative. So was there one-off which was mentioned during the opening remarks like start-up costs, new hiring. So just wanted to clarify whether all these one-offs have led to a negative margin in Q1? And if the one-offs are over, whether Q2 will revert back to 8%, 9% kind of margin?

Kumar Subbiah: Okay Raghu, the margins were negative in quarter 1. And I think Arnab updated in terms of customers are coming to our fold progressively. Okay as of end June, half of the customers have migrated. And by September end, we expect it to be around 90%. So for us to start servicing our customers in different geographies, we had to set up our warehouses, have people in overseas locations like Germany, UK, France, Poland. So we had those infrastructure warehousing-related costs. And those costs would be absorbed as we start servicing all our customers from September. Gross margin still looks healthy. And in fact, there's a gross margin differential between CEAT business and CAMSO business. Raghu, what we would request is that give us 1 or 2 more quarters for us to provide more clarity because only half of the customers and that too in the month of June has come. So we have to advance our expenses and in setting up systems for us to meet the requirement locally, it could be supply-chain systems, it could be VAT-related system. Those costs have already accounted and absorbed. So gross margin looks okay. Operating margins were negative. But however, I think in a quarter or 2, things should become normal as there will be a matching revenue.

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

Vijay Pandey: Sir firstly, on the natural rubber prices. So even though the crude prices has come down slightly, natural rubber prices are still, especially on the domestic side, is still remaining high. So just want to understand what is driving that dynamic? And also, I heard that Kerala government is putting a minimum floor price of INR250 from INR200. So do you expect the natural rubber prices to come down below INR250 or like INR250 is going to be the base case scenario going forward?

Kumar Subbiah: Okay, see, largely, Indian prices with a lag is linked to international prices. In a high demand, low inventory situation, local rubber prices would be at a premium. And in a reverse situation, local could be either at parity or a little bit of a discount. So that's what it happens. Today, domestic prices of INR280 is at a premium to the international prices to the extent of about INR20 per kg. So, local prices are largely driven by the international. And because of supply chain-related disruptions, the transit times increased during the intervening period. And therefore, overall inventory level in the pipeline came down, particularly in the physical inventory part of it. And therefore, that would have necessitated the local consumers of natural rubber to approach local market to buy more, and that has caused a little bit of a premium.

What we expect the local prices to happen; we expect the local prices to move in tandem with the international prices going forward. The premium could come down once the situation becomes normal. Ideally, based on the movement of other commodities, okay, it could be even aluminum or copper, even precious metals, steel, many of them reacted to correction in crude oil prices in terms of moving in the same direction, though the proportion was a little lower. But natural rubber has not happened yet. While though Shanghai market corrected about 4% or 5% on 1 or 2 days, otherwise, the international price is still at an elevated level. There's nothing -- no commodity in the world which will operate independently and not move in line with the crude. So therefore, with a lag, as far as the current quarter is concerned, quarter 2 is concerned, natural rubber prices are kind of a fixed for us at least, okay, because of the pipeline, physical inventory, imports. We hope the prices would correct, move down to the levels that you indicated as a first step. Maybe it will happen during the course of the later part of the quarter or in the subsequent quarters when things normalize.

Vijay Pandey: Okay. I also wanted to check in terms of the floor price. So is it okay to assume that by Q3 or Q4, it may come down to INR250? Or do you expect because government has set a floor price on INR250?

Kumar Subbiah: No, I don't know, it's difficult to comment if the local floor prices remain if it is high and consumers where they have already seen high inflation, whether they will continue, will be able to afford to buy at that level, only time will tell. As of now, short term, because it's volatile, we should accept that quarter 2 natural rubber prices is kind of fixed for us. We look forward to SICOM prices coming down once the normalcy returns and then the local prices will adjust for itself.

Vijay Pandey: And sir, what will be our mix in terms of domestic and natural -- domestic and international procurement?

Kumar Subbiah: Varies from category to category. Approximately 2/3 of the natural rubber currently is block international and 1/3 of it is local sheet rubber. Plus or minus 5% that is the range in which normally our consumption is.

Vijay Pandey: Okay. Okay. And sir, about the price hike. So, can you just give the quantum of price hike you have taken in June and one in July?

Kumar Subbiah: Okay I think Mr. Banerjee mentioned to you, up to June end, progressively beginning of the quarter to the end of the quarter in the replacement market, about 6.6-6.7% kind of a price increase has happened. And I also mentioned it in response to earlier other question that, that has kind of become about 11% after taking into consideration price hike that happened at the beginning of the quarter. Something more has been announced for the second half of the month, and something more will happen.

So as of now, about 11% in the replacement, international business about 5% to 7% has happened on fresh supplies. And OEM, in double digits, I think the number is not closed, it should be in a double-digit number effective 1st July, in addition to some 3% that happened in April.

Moderator: We will take the next question from the line of Ankur Poddar from Svan Investments.

Ankur Poddar: Firstly, can you please tell me the overall volume growth for the quarter?

Arnab Banerjee: For CEAT stand-alone, it's in about 13% to 14%, year-on-year.

Ankur Poddar: All right. And my second question is regarding our finance cost, which has gone up, which was explained that because Sri Lankan currency had depreciated. So we got an impact of around INR48 crores for the quarter. Now going forward, what can we expect the quarterly run rate to be for our interest expense? And do we see this loan amount getting lower?

Kumar Subbiah: Okay, see, this INR48 crores impact is basically on the loan given by parent entity CEAT India to our own 100% subsidiary entity called as Lanka OHT which takes care of the CAMSO business. And if we remove that INR48 crores, that would have been the normal finance cost that we would have incurred.

We expect debt level to marginally increase in the subsequent quarters at a consolidated level. And therefore, within a 5% level without that INR48 crores of impact would be the range in the next 1 to 2 quarters because the interest rates are stable, okay, we'd like to keep the debt level within range. So that's kind of a number in the next 1 to 2 quarters that you can expect.

Ankur Poddar: Okay. So is the understanding correct that the interest cost would be in the range of INR100 crores to INR110 crores going forward quarterly?

Kumar Subbiah: Yes. See, it is not only interest cost. It also has all the banking-related expenses into it. The number that you have for quarter 1, excluding INR48 crores, plus 5% kind of a range is what is likely to happen in the next 1, 2 quarters.

Moderator: We will take the next question from the line of Basudeb Banerjee from CLSA.

Basudeb Banerjee: Sir, like almost 15%, 16% price hike in a span of 4 months seems like hardly ever we have seen that in many, many years. And on the other side, post rainy season and the premium of domestic rubber prices or crude falling down..

Moderator: Sorry to interrupt in between, Basudeb I would request you to please use your handset mode and speak.

Basudeb Banerjee: No, I'm saying on the back of almost 15%, 16% cumulative price hike as sir was saying. And post September quarter, in case the commodity basket stabilizes or turns favourable, so will there be scope of price cuts or then one should be looking for much elevated profitability because the price hikes have been super normal. Hardly, we see such 15%, 16% price hike in a span of 4 months.

Arnab Banerjee: The price hikes, you know, is lagging the raw material price increases. So the price hikes have to happen first to cover the margin. Our normal gross margins are 40%, 41% in normal times. First quarter saw us going down to 33%. So there is a big gap to be covered. If the raw material prices fall off in second half sometime, we would intend to hold on to the price until we recover to a normal level of operation if we can, given the competitive situation. So that's how it is. The past experience of such situations indicate that the industry holds the price when the raw material tapers off. So what will happen is difficult to predict, but that's what we intend to do.

Basudeb Banerjee: Good, sir. That's what I was trying to understand because quantum of cumulative price hike is too much on the higher side because the market requires that kind of hike, which we generally don't see. And if market is able to hold on to these hikes when commodity starts reversing, then that can be a very positive development for the overall industry.

Arnab Banerjee: Yes.

Basudeb Banerjee: And second thing, sir, like even 1, 2 quarters back in the results call commentary, more or less when you were saying INR1,000 crores, INR1,200 crores of CAMSO revenue and 12%, 13%

margin. From that scenario, what has changed in 3 to 6 months? And where do we see now compared to those numbers?

Arnab Banerjee: Well, the top line indication, as I mentioned, we are moving at about $10 million-odd per month at customer prices. So the top line indication continues to be in that direction. That's the current status. And we are not handling the sales to our customer. It's a transition period. So nothing will change either too much on the positive or negative side. It will hold like this until we have control of the customers, which will be from quarter 3 of this financial year. So second half of this financial year, we'll know what to do with the business that we have inherited, obviously, on a positive side. On the bottom line front, right now, we are EBITDA negative because the volumes are low, scale is low. And there are some, as Kumar explained, we are setting up new offices, new warehouses, hiring new people without commensurate revenue because revenue is being handled by somebody else. So we will start ramping up revenue with these resources when we start having control over the customer, which is again second half of this financial year.

We are positive about going back to that margin level, but it will take some time when we start handling the value chain ourselves. So no change in outlook as far as CAMSO business is concerned. It's a matter of time is what we believe.

Basudeb Banerjee: And last question is for Kumar, sir. Sir, as you are saying around INR1,200 crores, INR1,250-odd crores capex -- consol capex for the year. And in the press release that incremental capacity addition till FY '31 for which you are going to split the new project capex. So would that add on to the existing capex number, or including that INR1,200 crores, INR1,300 crores per annum would be okay?

Kumar Subbiah: I indicated INR1,300 crores to INR1,400 crores capex was our outlook when we had a call a quarter back. And we are holding on to the same as we speak. The amount of capex outflow on account of this new capacity for the current year is not likely to be significant. But this INR1,300 crores to INR1,400 crores outlook for the current year includes all, including this one.

Moderator: We will take the next question from the line of Joseph George from IIFL Capital. Please go ahead.

Joseph George: I had a couple of questions. One is you mentioned that you increased prices by about 11% in replacement and plan another 3%, 4%. So what is the situation with respect to competitors, especially MRF? Is there a risk that because of aggressive price hike by some of the players, is there a risk to market share? And if you see any negative impact of market share, is there a risk of you rolling back some of the price hikes that you've taken?

Arnab Banerjee: Price hikes are being taken with a lag to raw material price hike, and it is so far inadequate, as you can see from our margins in quarter 1. So price hikes need to be taken by us. As far as the industry is concerned, so far, most of the competitors have taken price hikes in different categories, at different points of time, and the price table is moving up in quarter 1 is what I reported. So if this continues, then we shall be able to take this balance price hike also. If it doesn't continue, we'll evaluate. But there is no question of any rollback of price at this moment.

Joseph George: Got it, sir. The second question that I had was on the one-time MTM impact that you have taken in the Sri Lankan operations for the loan. I think the amount was some INR46 crores, INR48 crores. You mentioned that this is on a loan given by the parent to the subsidiary. So if it is within the system, the subsidiary books a loss, shouldn't the parent book a gain and the 2 offset each other in the consolidated level? It's a little confusing, if you can just clarify that.

Arnab Banerjee: It happens assuming if the currency was rupee, what you said was right. Or assuming if both the currencies had moved in the same proportion, okay, yes, cost in one place would be income in another place at consolidated level, it will get eliminated. But what happened in quarter 1 was the rupee, I'm saying 31st March rupee forex rate because generally, these are booked on the last day of the quarter based on how currency has moved. So it represents the position as on that particular day as on the, which was 30th of June.

During the quarter, rupee versus dollar depreciation was small, 30th June versus 31st of March. And so therefore, on the loan given to the subsidiary company, there is no income, there is no appreciation related benefit or the appreciation means dollar appreciating against rupee. Whereas in Sri Lanka, the Lankan rupee went down, that is from LKR310, LKR315 to $1 to around LKR335 to $1. That impact came as a currency impact for the quarter in that entity without a corresponding income in our books, that is in the stand-alone parent company.

Yes, see, this is $80 million. Yesterday, we got Board's approval because the entity needs to be adequately capitalized in the form of equity. So therefore, we have also got an approval from the Board of parent company, CEAT India, yesterday, to convert part of the debt into equity, which was anyhow part of our original plan when we infused capital into the entity. Part of that, about 30% of the total debt will now get converted into equity and to that extent will come.

In the normal course, it wouldn't have come as a loss. For example, we have a much larger proportion exposure of currency in our CEAT India books. You would not see that kind of an impact because these are all hedged. But in Sri Lanka, the currency of Lankan rupee could not be hedged against the dollar in the absence of any mechanism to do so. So therefore, we are constantly studying to find out how to make sure that this is handled in the future. One of them through the conversion of debt into equity, okay, which was planned one. It has nothing to do with what has happened in quarter 1. We'll have to find other ways in which this is better managed.

Moderator: We will take the next follow-up question from the line of Raghunandhan NL from Nuvama Research.

Raghunandhan NL: Sir, just a housekeeping question. For stand-alone business, export you shared was 20%. Can you share the mix of replacement and OEM for Q1? And also for the revenue mix, if you can give it between trucks and buses, 2-wheeler, LCV, EV, specialty, that will be helpful.

Arnab Banerjee: So revenue mix is for stand-alone is about 20-odd percent for international business and about 50% and 30% for replacement and OE. So that's the business mix and what was your other question? The growth, right?

Raghunandhan NL: No, sir. The segmental, I mean, the product-wise mix, trucks and buses, 2-wheeler, LCV, 4-wheeler and specialty, that mix. If you have it handy, otherwise, I can take it later.

Kumar Subbiah: Generally, we don't share so much, Raghu. These are there in the annual report, not quarter-on-quarter, we have not shared it that way. But I don't think it was very different from our annual numbers of last year.

Raghunandhan NL: Noted sir. Noted, noted. And just one last question. On the 2-wheeler capacity side, the one which is being set up at Nagpur, that would be roughly about 100,000 tyres per day, just clarifying that. And then over and above that, this new additional capacity will come out.

Kumar Subbiah: Yes, that's correct.

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

Vijay Pandey: Just wanted to check the correct MTM cost the interest expense. So is this because it's dependent upon the currency fluctuation, how do you see this thing moving forward like what is the base interest expense for that $80 million borrowing?

Kumar Subbiah: It's a related party transaction. So we have to ensure that the interest rate on such related party transaction is on arm's length basis. So therefore, we have a benchmarking mechanism in terms of what the interest rates are and accordingly, we have done it. So it's very close to the rate of interest about in the range of around 8% kind of interest rate. Whether it will happen in the future, look, Lanka's rupee has been a little bit volatile. After the crisis, Sri Lankan rupee depreciated to dollar. It went up to LKR370, LKR380 to $1. And once economy stabilized, it came to around LKR290, LKR295. And prior to crisis, Lankan rupee used to be LKR185 to $1, LKR185, LKR190 to $1.

So going forward, if the Lankan currency depreciates further, it will have an impact, not on $80 million. Hopefully, once the conversion happens, it will be on, say, $56 million. And we're also parallelly trying to find out whether the currency-related impact can be mitigated in any other way. But it can also work other way around also. If the current Sri Lankan rupee were to appreciate, it may also have a positive balance. So therefore, it's linked to this.

Today, because of macroeconomic reasons, the country is impacted on account of lower number of tourists, higher crude oil prices, higher inflation. So that is playing a role. And the drop that we saw in last quarter was quite steep. We haven't seen that kind of a steep depreciation of the currency post the crisis period. So it entirely depends on it.

Vijay Pandey: Okay. And sir, just one question on marketing expense. Can you provide the quantum of marketing expense in Q1 and fourth quarter for stand-alone business?

Arnab Banerjee: Our expenses are in the range of 2.0% to 2.1% of sales. So it was slightly higher in quarter 1 because of the spends on IPL that we do. And for the year, it should be around that level.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question for today. And with that concludes the question-and-answer session. I now hand the conference back to the management for the closing comments.

Arnab Banerjee: Thanks everyone for attending the call patiently, and we would look forward to meeting you again at the end of quarter 2. Thank you.

Moderator: Thank you, members of the management. On behalf of Nirmal Bang Securities Private Limited, we conclude this conference. Thank you, everyone, for joining with us today, and you may now disconnect your lines. Thank you.