



“CEAT Limited

Q1 FY '26 Results Conference Call”

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MODERATOR: **MR. MITUL SHAH – DAM CAPITAL ADVISORS
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the CEAT Q1 FY '26 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mitul Shah from DAM Capital Advisors Limited. Thank you, and over to you, sir.

Mitul Shah: Thank you, Nidhi. Good afternoon, everyone. Thank you, management, for giving this opportunity to hosting this conference call. On behalf of DAM Capital, I welcome you all to the Q1 FY '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 hand over the call to Mr. Arnab Banerjee for his opening remarks. Over to you, sir.

Arnab Banerjee: Thank you. Good afternoon, and welcome to CEAT's Quarter 1 FY '26 Earnings Call. I'll be taking you through the business updates for the quarter, and then Kumar shall share his remarks on financial performance, and then we'll have the Q&A. Our market is experiencing a very transformative phase driven by rise of electric vehicles, sustainability demands and digital innovation.

Key themes that are playing out include the development of EV-specific tyres with low rolling resistance and noise, smart and IoT-enabled tyres for predictive maintenance and advancements in airless and puncture-proof designs. Local manufacturing capacity expansion and a shift towards premium tyres are reshaping the market structure across categories and fueling investments.

With these strong drivers in place, the Indian tyre market is expected to grow at strong single-digit CAGR till 2031 with significant growth trajectory for the industry. Demand outlook. Overall demand outlook for auto sector continues to remain cautiously optimistic. In the near term, above-average monsoon forecast should boost rural demand.

Early kharif sowing, up 11% Y-o-Y underlines stronger farm incomes and augurs well for 2-wheeler and farm tyre offering. Simultaneously, robust government capex through June to August, targeted across roads, railways and green energy projects will underpin commercial vehicle and commercial equipment segments.

However, there are geopolitical tensions and potential spillover from U.S. tariff uncertainty, which has to be taken care of as we look at supply chain management, and this could hinder consumer sentiment across the globe. In the near term, we expect replacement demand for commercial MHCV tyres to be around mid-single digits, 2-wheeler to be high single digits, while there is some concern in the passenger car tyre market in replacement where growth could be low single digit.

In OEM -- low single-digit growth in passenger segments as you are aware. Growth rates are weakening in 2-wheeler, more so in motorcycles. Scooter segment is growing in single digits. In international business, we are seeing gradual demand improvement in agriculture radials and OTRs in the OEMs, global OEMs. We expect seasonal demand from Europe for passenger car tyres in Q2. This will improve. And should the tariff situation stabilize, we may expect to see ramp-up of operations in the U.S. Channel destocking may pause, leading to better sentiment in Q2.

Coming to financial performance. Q1 FY '26 continued with good robust revenue growth of 11.5% Y-o-Y on stand-alone. Stand-alone profit was INR135 crores in Q1 and we continue to deliver double-digit ROCE post tax. Growth momentum was close to 9% in Q1 over last year. Our replacement market segment has grown in strong single digits, while OEM segment has grown very, very strongly in early 20s. International business, however, faced headwinds in several geographies and sales remained flat.

Replacement saw robust growth in truck and bus segment, helped by continuous investments in construction and mining, as well as stable overall economic activity. 2-wheeler segment was supported by strong rural demand. Growth within passenger segment in replacement was muted, and we at CEAT have seen a gain in market share across 2-wheelers, motorcycle, scooter and 4-wheeler segment in quarter 1 -- on the back of product approvals, CEAT product approvals in bigger cars and SUVs in OEMs, we have seen a robust growth in share of business.

Moderator:

Sorry to interrupt you. We are losing your audio. I need to re-connect your line.

Arnab Banerjee:

Yes, I'll repeat the last couple of minutes. Replacement volumes saw robust growth in truck and bus segment, helped by activities in construction and mining as well as overall stable economic activity. In 2-wheeler segment, the growth was robust, supported by rural demand. Passenger segment demand was a little bit muted. However, we have seen a strong market share growth in 2-wheeler, both motorcycle scooter as well as passenger segment in quarter 1 in replacement.

On the back of product approvals in OEMs in bigger cars and SUVs, which we have been pursuing for the last several quarters, we have seen a robust growth of share of business in passenger tyres in OEM. Similarly, in scooter and motorcycle tyres, we have gained share of business Y-o-Y. Growth in 2-wheeler, both motorcycle scooters have been strong. Farm tyre growth in OEM was in mid-single digits. OEM volumes grew significantly Y-o-Y basis, therefore, across segments, led by passenger, 2-wheeler as well as commercial.

In international business, we faced headwinds in Europe in truck bus radial and passenger radial. Our stake in U.S. market is still very low. So the impact of tariff uncertainties were not very significant. However, it is our future growth market. And therefore, we look forward to situation evolving in the future.

Coming to margins. Our stand-alone gross margin witnessed contraction of about 68 basis points Q-o-Q. Main contributing factors included a flattish raw material cost, coupled with sales realization, which was lower in international market and in OEM market and the business mix, which was inferior because of lower international business sales. Our RM basket remained

largely in line with previous quarters, as I said, that is Q4 '25. Going forward, we expect benefits of lower RM basket to pass through in quarter 2.

Between gross margin and EBITDA line, we have been continuously controlling our expenses. And this time, it was 20 bps lower than, lower on a Q-o-Q basis. This is despite a steady marketing spend, in fact, a higher marketing spend in Q1, which happens due to our participation in IPL. Our stand-alone EBITDA margin in the quarter stood at 11.1%, whereas stand-alone net profit was INR135 crores.

On Camso, we are expecting to close the deal in the current quarter. We are awaiting certain regulatory clearances in Sri Lanka. There has been a slight delay, but it is expected to close, as I said, in the current quarter. Our on-ground teams are working closely with Michelin, and are ready to operationalize the business as soon as we get the green signal from the regulatory authorities.

We have already done extensive town hall meetings in Sri Lanka and addressed the management staff of Camso. We are in advanced stages of discussions in recruiting the right talent in research & Development and Sales. Sri Lanka is currently facing a 30% reciprocal tariff from U.S. on tyre exports to that country, a rate that was previously 44%. While it's already lower than the initial rate, we understand that discussions are still ongoing to negotiate this further down.

On our future trends of electrification, international business, premiumization as well as digitization, first, electrification.

We continue our dominance in passenger EV segment with close to 32% share in OEMs. Across EV models and OEMs, our fitments are getting approved.

We have been also a strong player in 2-wheeler EV. However, there is a share dip here to 12% of the OEM fitment, which we expect to recover with the growing models of EV in 2-wheeler, which are the conventional brands. Over the next couple of quarters, we aim to be present in all these 2-wheeler EV models.

Internationalization has been a key pillar of our growth and profitability. We have been focusing on the OHT business -- and of course, you are aware of our acquisition of Camso to become a leading global player in the OHT segment. We have grown in strong double digits in OHT in quarter 1. We continue to make progress and with key OEM approvals from BOMAG, Mahindra Australia, and Fiori.

During quarter 1, the business achieved its sales target despite challenging headwinds in geopolitical uncertainty and tariffs. We launched 22-plus off-highway SKUs in Q1 and continue to make our product more relevant for the customer.

In non-specialty business, we witnessed muted demand due to uncertainty in the tariff situation and impact on world trade. We witnessed growth within Africa and some scattered geographies. Latin America posed macroeconomic challenges arising out of domestic currency depreciation and China's free access in the region. Middle East was also -- which is a big market for us, was

also impacted due to the geopolitical situation. We are looking forward to stabilization of the situation and growth to bounce back in international business.

Premiumization, CEAT recently launched tyres with advanced high-tech innovations like ZR rated tyres, 21-inch tyres, calm technology, run-flat tyres, which you are aware of. We are taking some of these technologies outside India as well. As a next step, we are also investing -- stepping up our investing in digital marketing and channel development efforts to facilitate the sales of these high-quality innovative tyres.

We have gained share in replacement and OEM for the premium segment tyres, which we define as 17-inch rim size and above. We have also grown in replacement significantly in the larger bikes above 150 cc in both bias and radial fitment. We are investing in our plans to ramp up the mix of larger rim-size tyre for passenger radials and 2-wheelers. Our brand imagery in the growing segment of premium and luxury cars have shown an uptick in quarter 1.

Digitization. At CEAT, we are committed to harnessing the power of digital innovation to grow -- drive growth efficiency and satisfaction of customers. Our AI-powered solutions in the factories are yielding tangible results across the value chain.

As we build a future-ready organization with a strong digital foundation, we look forward to continuing this journey and delivering sustainable value to our stakeholders. We have extended our already proven vendor portals, for example, from procurement to outsourcing partners, which will remove human errors, enhance transparency and agility.

The organic website traffic grew by 2x. Website traffic from premium users increased significantly. Premium SUV users traffic increased significantly. Positive sentiments for the brand moved up by 33% and there was a 107% increase in average interaction per post Y-o-Y. Overall capacity utilization was 80% plus. Expansion projects are progressing as per plans, and we expect our total capex for next year, as guided, will be around INR1,000 crores, which will also include the maintenance capex of CEAT and Camso.

On sustainability, we were awarded the EcoVadis Silver medal, placing us in 89 percentile of the companies. Our renewable energy power consumption in the manufacturing setup was 42%. We expect this to grow up to 60% by FY '27. We are committed to sourcing material from regions that are free from deforestation and degradation, which is aligned with 100% EUDR compliance readiness.

We are also actively collaborating with USTMA to explore alternatives to 6 PPD, which are going to be banned. And so we are future-ready as far as sustainability is concerned, not only from a regulatory perspective, but also from the perspective of human rights, ethics, and sustainable sourcing.

As we enter Q2, we are looking forward to the macroeconomic landscape stabilizing, bounce back in international business, better raw material cost pass-through in our P&L and holding our prices across segments for a better growth and better profitability. I would like to hand over the call now to Kumar for his remarks.

Kumar Subbiah:

Thank you, Arnab. Good afternoon, ladies, and gentlemen, and thank you for joining our Q1 FY '25 earnings call. I'll share some further financial data points with you all, post which we can enter the Q&A session. First, regarding our overall financial performance. Our consolidated net revenue for the quarter stood at INR3,529 crores, with a strong year-on-year growth of approximately about 10.5%.

And we crossed revenue of INR3,500 crores in a quarter for the first time. This was driven by a combination of both volume growth as well as price growth on a year-on-year basis. And our growth was predominantly in OEM and replacement segments, while our international business revenue remained flat.

Our consolidated EBITDA for quarter 1 stood at INR386 crores with 10.9% margin, which is about 56 basis points contraction on a quarterly basis, largely on account of lower realization arising out of changes in the mix and about 122 basis points contraction on a year-on basis, primarily due to rise in raw material prices in the last 12 months, which we could not pass on fully to our customers.

Coming to gross margins. Our gross margins for the quarter stood at 36.8%. The raw material basket in quarter 1 largely remained flat as compared to the previous quarter, which was in line with our expectations. On a year-on-year basis, our gross margins contracted by about 245 basis points. The drop is primarily on account of rise in raw material basket. Our EBITDA margin contracted by about 56 basis points quarter-on-quarter due to marginally lower realization, coupled with flattish RM basket and marginal increase in our marketing spend.

Coming to raw materials, the key factor that determines the raw material prices, which is crude oil, remained range bound during the quarter, though it flared up in between the -- during the quarter in between due to geopolitical reasons. Brent is currently hovering around \$69 with some upward bias.

As regards natural rubber, driven by little softer demand in the international market, crude -- sorry, natural rubber prices fell from about \$1,900 to about \$1,700 in the SICOM exchange. However, domestic rubber prices have remained high, supported by supply-demand gap in the Indian market. It is currently trading around INR200 per kg, and we hope the prices to come downwards, once the availability of international rubber improves in India.

Coming to rupee, rupee has been mildly volatile, around INR85 to INR86 to \$1 during the quarter, having appreciated against U.S. dollar by about INR1 on an average against quarter 4. Considering volatility in markets, we'll continue to keep a close watch on RM situation and take necessary action as it involves in the coming quarter.

Coming to debt, capex and working capital. As regards to capex, we spent about INR231 crores during the quarter, which is in line with our annual guidance number of about INR900 crores to INR1,000 crores. The entire capex of INR231 was fully funded through our internal accruals.

Our working capital has improved sequentially, predominantly on account of better management of payables and also maintaining other elements like inventories and receivables constant in terms of number of days. Happy to share with you all that our working capital has come down

by about INR64 crores during the quarter. So we ended the quarter with a negative working capital of about INR94 crores. We'll continue to drive efficiency in working capital and use the cash judiciously to fund our growth.

We generated healthy operating cash flow, which was used to manage our capex requirement and also to reduce debt. Our consolidated debt stood at about INR1,814 crores, a drop of about INR115 crores during the quarter. Our stand-alone non-operating income for the quarter includes INR21.5 crores of dividend that we received from our subsidiary in Sri Lanka.

Coming to Camso, we have already secured funding, necessary funding to provide capital for the acquisition of Camso as and when it happens. Our debt-to-EBITDA on a consolidated basis stands at a healthy level of 1.2x and debt equity stood at 0.4x, as of end June. In order to secure additional limits for our NCDs and CPs, we got ourselves assessed by credit rating institutions during the quarter, and both of them affirmed AA with positive outlook rating for long-term and A1+ for short-term.

Coming quickly to operating expenses. Employee costs remained largely at the same level as that of quarter 4. Other expenses were kept under check during the quarter. Our freight costs and outsourcing expenses went up during the quarter due to higher scale of operations. We also had higher marketing spend on account of activities relating to IPL, which would normalize in quarter 2 and beyond.

Depreciation for the year -- for the quarter stood at the same level as that of quarter 4. Interest cost increased primarily on account of the fact that the debt -- average debt in the quarter was higher than quarter 4, though the debt levels came down during the later part of the quarter. The effective rate of interest have remained same or a little down in quarter 1 versus quarter 4, largely arising out of reduction in the interest rates in the market.

Overall, our consolidated profit after the tax stood at about INR112.3 crores, which compares to about INR154.2 crores during the same period of last year, and INR98.7 crores in quarter 4 2025. Also happy to share that the Board of Directors of CEAT yesterday in the Board meeting approved a capex plan of about INR450 crores to be spent over the next 18 to 24 months in our Chennai factory in passenger car radial tyres, largely to readjust our upstream capacities arising out of changes in the weight of the tyres.

Lastly, our strategies are in place to strengthen our brand. We remain vigilant of global economic -- macroeconomic trends, adjusting our strategies as needed to remain agile. Additionally, our continuous focus on free cash flows with flexibility to adjust it during difficult periods and healthy balance sheet in terms of leverage ratios continue to reinforce our financial strength. Thank you. Now we can open the floor for Q&A.

Moderator:

The first question comes from the line of Raghunandhan from Nuvama Research.

Raghunandhan:

Revenue growth has been good at double digits and company has been gaining market share. For Q1, can you indicate how was the breakup between volume growth and realization? And also within the volume growth, if you can share the trend for OEM, replacement and exports?

- Arnab Banerjee:** So I'll answer the second part first. Volume growth of export was flat. The volume growth of domestic was much higher in OEM, strong 20s and the volume growth in replacement was in single digit. So that was the business unit-wise volume growth. And overall volume growth was about 9% and overall value growth was about 11.5%. So that can give you an idea of the volume and price-led growth.
- Raghunandhan:** Continuing with the same question, within the replacement growth, if you can talk about TBR, PCR and 2-wheeler, how have they done? And whether you expect the same trend to continue for the full year?
- Arnab Banerjee:** Yes. So PCR, I will start with. PCR, the urban demand was soft in replacement and our growth was in low single digit in PCR, but we have...
- Moderator:** Sorry to interrupt. Raghunandhan, can you mute your lines when you're not speaking?
- Raghunandhan:** Yes, sure.
- Arnab Banerjee:** Yes. So I was talking about passenger car tyre market in replacement, which was -- the growth itself was muted in replacement segment. And our growth was single-digit growth, and we have gained market share vis-a-vis quarter 4. And we are very near to our all-time high market share in passenger car tyre, but overall growth was muted. In 2-wheeler, market has grown better, driven by rural demand.
- And our growth has been pretty good in double digits in replacement, which, with higher growth in scooter tyres and slightly lower growth in motorcycle tyres. In CV, in truck bus radial, truck bus bias, there's been a slight degrowth. Truck bus radial has grown in strong single digit Y-o-Y.
- Raghunandhan:** That's very helpful. And second question to Kumar, sir. Sir, if you can clarify on the raw material side for Q2, how do we see the benefit given the fall in the global rubber prices and also some of the crude derivatives have seen a decline. So how do you see the benefit?
- Kumar Subbiah:** See, it's going to be a mixed bag in quarter 2. With respect to natural rubber, international prices have corrected progressively to the tune of about \$200. So what used to be in SICOM about \$1,900, it's close to about \$1,700. So about 60% of our natural rubber is international. So we -- the benefit of the drop in prices, we started getting from June.
- So we will have that benefit in quarter 2. But the local prices, which was hovering round about 180 to 185, as we speak today, is about 205. So part of that -- some portion of that benefit on import will get neutralized to the extent of local. But at an aggregate level, I think our expectation is the raw material cost could go down by about 1% to 2% in quarter 2 versus quarter 1. Quarter 1 ...
- Moderator:** Ladies and gentlemen, sorry for interrupting. The management line has been disconnected. Please be on hold. I'll be reconnecting the management line. Ladies and gentlemen, the line for the management is reconnected. Please go ahead.

- Kumar Subbiah:** Yes. Okay. I think -- so just to summarize, we expect raw material prices in quarter 2 to be about 1% to 2% lower than quarter 1. That is what we are expecting. In quarter 1, it remained flat at quarter 4 level after taking into account overall impact in some increase in some raw material feedstocks and reduction in other feedstock.
- Raghunandhan:** Thank you very much sir. Just a last question on Camso. Can I request some historical numbers for revenue and EBITDA either for FY '25 or CY '24? And also, if you can speak on tariff at 30% on tyre, 4% on track, possibly the tyre tariff might come down. Is Camso partly absorbing the tariff impact on U.S. currently? And how do you see the outlook in this business?
- Arnab Banerjee:** So historically, the recent trend of turnover of Camso is about \$150 million. And the tariff situation is -- 44% was the reciprocal tariff announced. It's come down to 30%, applicable from 1st of August. And so the situation is not yet clear whether it will stay at 30% or go down further. Hopefully, it will go down further.
- And if it stays at 30%, for example, then as I mentioned in the earlier call, we are working on a plan of where to produce what for which market. We also have 2 bias factories in India, and we are inheriting bias factory in Sri Lanka. So there is a possibility of rejigging the mix to see where to produce what. That is a backup plan. But we are pretty hopeful that something -- some negotiations are going on, it will work out. At present, it stays at 30%.
- Raghunandhan:** If you can just share the margin on Camso? Thank you.
- Moderator:** I request participants to limit your questions to 2 questions per participant. The next question is from the line of Siddhartha Bera from Nomura.
- Siddhartha Bera:** Sir, my first question is on this realization where you mentioned that we had seen some reduction in the realization for the international markets. Possible to highlight what is the reason for this? Did we need to absorb some tariffs or why -- or it is a function of mix? So if you can just help us understand why it was lower?
- Arnab Banerjee:** In international markets, we did look at absorbing some tariffs. So -- but that is one part because, as I mentioned, our dependence on USL at this moment is pretty low. We also executed a large order, which is a one-time thing of private label where the margins were -- where the realizations were low.
- So these were primarily the reason, not so much a result of mix or anything. Europe -- yes, Europe, which is high margin and high realization. Europe, we had lower volume realization in quarter 1 also. So in a way, all these 3 factors would have impacted. These are assignable one-time causes. So all happened together in Q1.
- Siddhartha Bera:** Got it. And secondly, sir, on this tariff scenario, now like for this year also, we are nearly half of this year already done. So for the current environment, what is the scenario? Is Camso able to sort of pass on the entire tariff or how much they need to absorb as of now? So if you can share some thoughts there for the near term, that will be very helpful.

Arnab Banerjee: Yes. So assume it stays at 30%. So we have to see the competitive set, which is China, Canada, Vietnam and of course, India in a way. So if you look at the competitive set, there is no incremental competitive disadvantage as far as Camso will face. However, the U.S. customer will experience an overall inflation. So there could be some impact on demand because of that. But otherwise, competitively, I think the situation will be similar to the situation when there was no tariff.

Siddhartha Bera: Okay. Okay. And this \$150 million you mentioned, is it for CY '24 or it is your target for CY '25?

Arnab Banerjee: You can say it is the current run rate. Current run rate. Okay.

Siddhartha Bera: Okay. And margins also will be around mid-teens now or there is a bit of softness there because of this tariff scenario?

Arnab Banerjee: The margin -- the historical margin was around mid-teens, yes.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from CLSA India Private Limited.

Basudeb Banerjee: Yes. A couple of questions. Just -- I missed out, you initially said what percentage of natural rubber you use as international?

Kumar Subbiah: I said 60%.

Basudeb Banerjee: 60%?

Kumar Subbiah: Yes.

Basudeb Banerjee: Okay. So then this 10% decline in SICOM prices should come -- get reflected in your calculation of 200 bps raw mat basket reduction next quarter?

Kumar Subbiah: Yes, I said 2% of cost quarter-on-quarter, yes.

Basudeb Banerjee: And the crude benefit of both included?

Kumar Subbiah: Yes, including this also rupee-related freight on international. All of that, our estimate is about 1% to 2% quarter-on-quarter reduction of cost.

Basudeb Banerjee: Second, sir, this INR450 crores Chennai PCR capex, this will be included in this INR1,000 crores overall annual capex number?

Kumar Subbiah: Yes, true. That's true.

Kumar Subbiah: On the INR450 crores, the outflow during the current year is not very significant, but we will maintain the capex relating to that INR450 crores also within that basket of -- within the total INR1,000 crores that was indicated.

Basudeb Banerjee: And this quarter, as you highlighted, OEM growth was healthy 20%...

- Moderator:** Sorry to interrupt. But please -- I request you to please come back for the follow-up question. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities.
- Mumuksh Mandlesha:** Thanks for the opportunity, and congrats on the continuing double-digit revenue growth. Sir, firstly, on the margin side for the stand-alone business, how do you see the drivers for the improvement further from here on, where we can again take back the margin towards 13%, 14% level in the past. So what are key drivers do you see here to further improve the margin, sir?
- Arnab Banerjee:** So one thing is the raw material situation, which Kumar has explained. So we expect the margin to accrue on account of that. On the sales side, we look at gaining back the volume in international market. We have a clear view of the order book in quarter 2. And the reason is that the channel downstocking, which was there due to uncertainty in quarter 1 is now partially over. And we have a seasonal offtake of orders in Europe.
- So Europe is the highest sales realization zone. U.S., we are not yet significant. So we want -- we would like to see that situation improve in quarter 2. That's the second point. And there are some long-term drivers of premiumization in OEM as well as replacement, which will continue, which are steadily progressing. So on the sales side, sales realization, there are initiatives tactical as well as long-term, which we are going to take it up and raw material pass-through is going to happen in quarter 2. So we should see some improvement in margin going forward.
- Moderator:** The next question is from the line of Rishi Vora from Kotak Securities Limited.
- Rishi Vora:** Sir, just wanted to clarify on Camso. You highlighted that current revenue run rate is around \$150 million, but the CY '23 revenues was around \$213 million. Is that right understanding?
- Kumar Subbiah:** Yes, it was around \$200 million, but I think we did -- when we shared the financial data, that was -- they work on a calendar year basis. That was the full year data that was available. But in all our conversations, we had indicated 2024 numbers are lower, a little lower. And so -- but 2023 was the only full year data available at that point in time, which was furnished. And '23 had some kind of one-off of 2022 also some part of that was part of 2023.
- Rishi Vora:** But -- so the right number right now is we are right now annually clocking in \$150 million at this point in time.
- Kumar Subbiah:** Yes, current run rate. Current run rate, you might take it as approximately \$150 million.
- Rishi Vora:** And then profitability at this point in time, we are about low teens because the revenue base has come off?
- Kumar Subbiah:** Yes. see, look, we still have to take possession of the business. And what we get is only some management information. We'll be able to share more insights once it comes into our fold. But we can assume that range.

- Rishi Vora:** Understood. And second, just wanted to clarification on the tracks tariff, right? So our -- we are seeing that it's around 4% tariff. So is there any exemption for the rubber tracks -- because generally, if it's 30%, then both for bias tyres and rubber tracks, it has to be 30%, right?
- Arnab Banerjee:** So yes, 30% is the reciprocal tariff. It's not a category tariff. It's a tariff on the country. And there are possibilities that some categories, like, textile is also important in Sri Lanka. Tyre exports is important for Sri Lanka. So some categories may be lower than 30%. It's possible. We will know once the situation becomes clearer.
- Rishi Vora:** Okay. But at this point in time, if it's 30%, then it can be 30%? Or you think there can be -- you are assuming that there will be an exemption?
- Arnab Banerjee:** At this point, it is 30%.
- Rishi Vora:** Both for tracks and tyres. Yes.
- Rishi Vora:** And you also talked about if, let's say, the situation remains status quo, then we might shift some of the tyres or bias tyres capacity to India from Sri Lanka. But if in India also, the tariffs are -- obviously, right now, it's not decided, but if it's hypothetically 20%, 25%, then does it make sense for us to shift to India? And if we are also shifting to India, assuming that India has lower tariff, then will there be additional capex for this or we can accommodate in the existing facilities without much capex?
- Arnab Banerjee:** No. So the tyres can be shifted here and there, both sides, depending on where the tariff is lower. And the lower tariff country can send it to U.S. and the other country can send it to Europe, for example, these are the 2 main markets. If the tariff situation is similar in both countries, it does make sense to shift from one place to the other, as you rightly said. And tracks can be manufactured only in Sri Lanka.
- Rishi Vora:** Understood. And just last question on other expenses.
- Moderator:** Sorry to interrupt. I request you to come back for the follow-up question. The next question is from Joseph George from IIFL.
- Joseph George:** I have 2 questions. One is when I look at your interest expense, it's about INR80 crores in the quarter, translating to an annualized INR320 crores. And when I look at that in the context of your debt number, which is about INR1,800 crores, the rate of interest seems very high. So if you can just clarify what all is included in that INR80 crores interest expense.
- That is one. And second is the share of profits from associates and JVs, which used to have a run rate of about INR50 crores per quarter has dropped to a loss of INR15 crores this quarter. So if you can just clarify on that as well.
- Kumar Subbiah:** Okay. I'll take the second one first. In Sri Lanka business, last quarter, they distributed dividend. So we received about INR21.5 crores of dividend, which we have reported as other income. But when a dividend is paid, if you really look at our total dividend for last -- that we received was

equivalent to the profit or marginally higher than the profit that the business generated because the business has enough cash with them.

There is a withholding tax on the dividend transfer, which is adjusted in the consolidated profit. Considering the dividend itself is as much as the annual -- our share of annual profits, okay, and even a little higher in the current dividend. The withholding tax is adjusted in the consolidated profit, and therefore, it is showing as a loss. You won't see it in the subsequent quarter. It's only because of the dividend-related withholding tax.

On the first point with respect to the interest cost, okay, so interest has one component, which is our direct debt. We said debt was a little higher in the first half of the quarter and moved down in the second half of the quarter. Our May month and June month collections were better relative to April month. And the capex was a little skewed towards the beginning of the quarter.

And therefore, we ended up with about INR114-115crores drop in debt as of 30th June compared to 31st March. So average debt was a little higher. Second, we also have one debt interest component that we pay on some security deposits part of it, which is also to be added while comparing it with the total debt when you arrive at the average interest on the total debt.

Joseph George: So what is the split of actual interest on the debt versus the amount on security deposits, etcetera? Because when we calculate the rate of interest, it turns out to be a fairly high number.

Kumar Subbiah: See approximately about 25% of the interest that we have reported here would have on the security deposit. Balance portion is on the other debt, other gross debt.

Joseph George: So your rate of interest is like 12-13% now on the total debt?

Kumar Subbiah: No rate of interest on our borrowings would be -- average would be around 8% for the quarter.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from CLSA India Private Limited.

Basudeb Banerjee: A couple of questions quickly. One, as you mentioned this quarter, OEM revenue growth was in mid-20s and replacement was mid-single digit. So I hope that also contributed partly to the gross margin contraction Q-o-Q. Will that be right to assume?

Arnab Banerjee: In the overall situation, if you include international business also, then our mix is usually, let's say, 71%, 72%, 28% of OE. So yes, to a certain extent, it is responsible, but more so because of the flat growth in international business.

Basudeb Banerjee: And second quick question. Camso, as you said, will be closed sometime during Q2. So what should be the right timeline that -- how many months of consolidation in FY '26 approximately?

Arnab Banerjee: So 6 months of second half is what we can look at, could be 7 months also. So something like that.

Moderator: The next question is from Prashant Jain from Anand Rathi Institutional Equities.

Prashant Jain: Thank you for the opportunity. My question would be regarding the debt. So what was the debt at the end of FY '26, including Camso? And what would be the interest rate for that?

Kumar Subbiah: Okay. I think we have not exactly arrived at the debt, but I can give some sense, okay, assuming in the beginning of the year, we started closer to about INR2,000 crores beginning of the current financial year or as of 31st March. When we were carrying out an exercise in terms of what would be our debt by end of the year, building a little bit of sensitivity analysis with respect to revenue and profitability.

I think our debt number was coming in the range of about INR3,500-3,600 crores, assuming we'll spend INR1,000 crores of capex, and after taking into consideration the dividend outflow and also the Camso related. That's what we had assumed in our internal working, okay? It could vary. Quarter 1, our debt came down contrary to our initial plan where we thought it will be flat. So some minor tweaking will happen as we go into the year as we continue to focus on cash flow efficiencies. It could be in that range.

Prashant Jain: And what was the interest rate, average interest rate?

Kumar Subbiah: See, currently, on our borrowings, incremental borrowings would be sub-8%, incrementally what we borrow. The current borrowing has some component portion, which is term-loan that is linked to MCLR and public sector banks MCLR is still hovering around 8.25%, 8.3%, okay? So therefore, we hope that MCLR correction will happen in the coming months. Incrementally, I think we are confident in terms of borrowing whatever is additional requirement, at below 8%.

Moderator: The next question is from the line of Raghunandhan from Nuvama Research.

Raghunandhan: For FY '26, double-digit revenue growth is expected. Within this, how do you see the growth in replacement and exports? And if you can elaborate on exports post a flat Q1, the pickup, which is expected in Q2, Q3, be it destocking, and which regions do you expect to contribute to the growth?

Arnab Banerjee: Yes. So international business has been flat, and that we expect to come back in Q2. And we have the complete visibility of order base of Q2. Q3 & Q4, we'll have to wait and see how various things pan out. So it will be definitely positive, if not double-digit growth for the entire year, but we'll try to reach there for the remaining quarters.

Replacement growth also with more production coming online with the existing capacities, we expect to move on from here, which is -- I'm talking of volume growth here. We expect higher growth in 2-wheeler to continue and higher growth in commercial vehicles to continue. Replacement market in passenger is a little bit muted. So share gain may be there, but the growth will also continue to be lower than the other 2 categories.

So OEM growth will taper off a little bit, but we'll have strong growth because of the higher in sizes tyre approvals that we are getting and those volumes are coming on stream from OEMs even in quarter 2, quarter 3 and quarter 4. So the mix will slightly be better going forward.

Raghunandhan: Secondly, on to Kumar sir. Sir, how much would be the maintenance cost for CEAT and Camso in FY '26?

Kumar Subbiah: Maintenance means maintenance capex, is it?

Raghunandhan: Yes, sir.

Kumar Subbiah: Okay. So, maintenance capex for CEAT is normally in the range of about INR200 crores to INR250 crores is what we are estimating it to be. This maintenance capex includes R&D. It includes growth-related molds, okay? It includes digital IT related. Sometimes we also drive some cost improvement programs that might call for some investment, which is also part of that.

So all of that we accommodate within this INR250 crores of maintenance capex that we have kept it. We are a little flexible on this. For any good project, any other good innovation or something like that, we have no issues in terms of funding sometimes for improvement like solar, rooftop in factories and things like that because this helps in terms of making our operations more cost efficient.

As regards Camso so part of it, our Sri Lankan operations part of it, in the current year, it is likely to be very -- not very significant because we are almost in the first -- in the first month of, say, quarter 2, let's assume it happens in quarter 2, Camso. We are talking about 6 months kind of operations in the current financial year. Internally, we have assumed it could be anywhere between INR50 crores and INR100 crores.

It's unlikely to be anything in excess of that -- with respect to routine or maintenance capex. But in case of Sri Lanka, we also intend to create some upstream-related capacities so that the manufacturing becomes independent to produce all aspects of tyres and tracks. So that might require about INR150 crores to INR200 crores of invest capex over a 2-year period, say, in the next 2 financial years. That's what we expect.

Raghunandhan: Got it, sir. And that is part of the INR1,000 crores, which is planned in FY '26.

Kumar Subbiah: No see, look everything relating to CEAT India is part of the INR1,000 crores, okay. And Camso being about a 6-month kind of an operation, I said about -- it could cost about INR50 crores or something like that. That's not considered in INR1,000 crores. But if need be, I don't think that would be a big challenge in terms of keeping it within the INR1,000 crores, but I feel it will be in addition to the INR1,000.

Moderator: The next question is from the line of Nitinn Aggarwala from JM Financial Limited.

Nitinn Aggarwala: Just wanted to clarify on the Camso's consolidation or you had indicated that it will start consolidating from the quarter 2. So are we going to do it from quarter 2?

Kumar Subbiah: Now look, as and when it happens, I think Arnab outlined in terms of possible consolidation, say, let's assume 1st September. Okay. So that -- which means that 1st September onwards will get consolidated. Even we consolidated quarter 2 results, okay, it will be a 1-month impact of Camso for the current quarter and the next quarter onwards, all 3 months impact.

Nitinn Aggarwala: Okay. So it will happen in...

Kumar Subbiah: Yes, it will be 100% consolidation because it will be a 100% subsidiary of CEAT India.

Nitinn Aggarwala: Okay. So we can assume that it either can happen in Q2 or Q3, not beyond that?

Kumar Subbiah: Yes, yes. Okay. I think it's here and there, that's all. It looks like -- I think you indicated already, we are working towards 1st September. Let's assume it is 1st September at this point in time.

Moderator: The next question comes from the line of Andrey Purushottam from Cogito. Please go ahead.

Andrey Purushottam: Yes. Sorry. Can you hear me? Yes.

Arnab Banerjee: Yes.

Andrey Purushottam: Since, you have set aside as one of your goals to gain market share and you have gained some market share in the past and market share acquisition remains part of your strategy. Can you tell us what you think has helped you gain market share in the recent 12 or 24 months? And what are your plans, particularly in marketing to continue this trend of gaining some market share and from on now?

Arnab Banerjee: So I presume you're indicating the replacement market. So there are -- in 2-wheeler, we have a very strong dominant position. So I think very quantum gain of market share, we are not looking at. So it will be creeping gain of market share, and that's the way it has been in the past also for the past 7, 8 quarters.

In some odd quarters, it dips by 0.2%, 0.3% also. So broadly, it is slowly moving up kind of market share, on the back of a strong distribution strength which we have and which we continue to hone and strengthen over the years more and more. So that's a unique strength of CEAT for 2-wheelers only, I'm saying. And there are opportunities where we are relatively lower market share even now.

It's not that the market share is uniformly high across the country. So we focus on those zones of low market share to bring it up and then the overall market share grows up. But overall, the impact is a creeping market share gain that has happened and will continue to happen. Our brand is very strong in 2-wheeler commuter segment.

So we are focusing on building the brand stronger in the top end, which is just about 3%, 4% of the market today, which is the radial segment and the higher CC bikes. That's the emerging segment where we would focus our marketing effort. And so that's broadly the -- and of course, the usual stuff like continuous product enhancement and newer patterns and newer vehicles. And OE also has a rub off, so we are strong in OE.

In 4-wheeler, the market is congested in the sense there are a lot of good players in the market, and it's going to be a different kind of game. But the opportunity here is that the premium segment is exploding. -- which is very small today of 10%, 11% of the market, but this will grow to 25%, 30% in 3 to 4 years' time. And that is where most of the marketing efforts are going to

be focused with the right kind of products such as RFT, the 21-inch tyre, we can move even higher. The run flat tyres...

Moderator: Ladies and gentlemen, sorry to interrupt. The line for the management has been disconnected. Please be on hold. Meanwhile, I'll reconnect the management. Thank you. Ladies and gentlemen, the line for the management has been reconnected. Please go ahead.

Arnab Banerjee: Yes, I was continuing on the 4-wheeler part, and we have invested massively on cricket for keeping the saliency high. And a lot of unique marketing programs are being designed and some are already on, to cater to this evolving SUV stroke premium customers.

So broadly, that is the thrust of the whole thing. CEAT Shoppe is a unique initiative of CEAT. 50% of our sales happen through exclusive channel, which is going to be stronger in future. So yes, these are some of the initiatives that are going to help us in taking our market share further.

Moderator: The next question is from the line of Disha Sheth from Anvil Shares and Stock.

Disha Sheth: Good afternoon sir. Sir, I wanted to check once we consolidate Camso in Q2, what would be the cost structure, as in how much would add to interest, depreciation? And currently, I believe they are in losses. So what will be the impact on a consolidated basis in terms of margin or cost?

Kumar Subbiah: Can you repeat? Depreciation, is it?

Disha Sheth: Yes. How much would be the additional cost for Camso and which will be added in our consolidated in terms of employees or interest and depreciation?

Kumar Subbiah: Okay. No, just to make it simple, one way to do it is that we indicated some kind of a margin. So it's better to -- if you're trying to make a model, element-wise, possibly, we can do it later, but revenue numbers broadly, we have given you a sense. We have given a sense in terms of our operating margin. So it's better to add that level, okay?

And if you want to know about depreciation standpoint, we still don't have complete details of it. Nothing wrong in taking a 5% of the capital value of the asset as the depreciation, which is what the normal case. But we don't have the full breakup of capital value of the asset. So to arrive at a PBT beyond EBITDA.

Disha Sheth: Okay. Great. Sir, and last question from my side. In terms of CEAT stand-alone replacement growth, sir, what growth from your study and the past OEM growth do we expect in coming 3 to 5 years in replacement overall and the category-wise?

Arnab Banerjee: So replacement growth, it sometimes moves in cycles, especially the commercial tyre segment. But I think we are looking at -- I can talk about our share growth strategy, right? So I will repeat just now what I said. 2-wheeler, will expect to hold or grow marginally, the share, market share. And our penetration of 2-wheelers is abysmally low, so is the penetration of cars.

And roads are becoming better. People are traveling more, not just for commuting, but also for hobby and weekend tours and long tours, etcetera. So tyre wear is going to be higher. Usage of

tyre is going to be higher. So we are quite bullish on the replacement demand long term, though there will be an occasional down cycle here and there.

So we should expect double-digit growth in 2-wheeler going forward. In passenger, it will depend on our success of market share growth in passenger car tyre. If we can ride our marketing initiative of premium tyre growth, we can grow in strong single digit in passenger. Truck bus radial, I'm talking of all volume here. So no -- inflation on top of that. And truck bus radial will be in strong single digit as well.

Moderator: We'll take this as the last question for today. I would now like to hand the conference over to the management for closing comments.

Arnab Banerjee: So thanks very much. We had a little bit disruptions in the call once or twice. So we regret that. But otherwise, thanks for the very interesting questions and hope we have answered them transparently and adequately. Looking forward to continue our interaction in future. Thank you very much.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.