# CEAT Limited

Q3 FY '23 Earnings Conference Call

**January 25, 2023**

**Management: Mr. Anant Goenka – Managing Director – CEAT Limited,**
**Mr. Kumar Subbiah – Chief Financial Officer – CEAT Limited**

**Host: Mr. Ashutosh Tiwari – Equirus Securities (P) Limited**

**Moderator:** Ladies and gentlemen, good day and welcome to CEAT Limited 3Q FY23 earnings conference call hosted by Equirus Securities. 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 the operator by pressing star (*) then zero on your [unclear] phone. Please note that this conference is being recorded. I now hand the conference over Mr. Ashutosh Tiwari from Equirus Securities. Thank you and over to you, sir.

**Ashutosh Tiwari:** Thanks, Aman. Good evening everyone. On behalf of Equirus Securities, I would like to welcome you all on the CEAT Limited Third Quarter FY23 conference call. From the management side, we have Mr. Anant Goenka, Managing Director, CFO Mr. Kumar Subbiah and members of IR team. First of all, I would like to thank the management for giving us the opportunity to host this call. Without further ado, I would like to hand the call to Mr. Goenka for opening remarks.

**Anant Goenka:** Thank you, Ashutosh. Good evening everyone, and a very warm welcome to CEAT Quarter 3 FY 23 Earnings Call. I'm Anant Goenka and I have with me our CFO Kumar Subbiah on the call with us. We wish you a very happy, healthy, and prosperous 23. And as usual, we will start with brief remarks from myself and Kumar post which we will take up Q & A.

Quarter 3 is generally a seasonally weak quarter for us particularly in passenger segments. On the domestic side we saw a similar trend this time as well. Volumes for Quarter 3 were lower by about 6.5% on a Quarter-on-Quarter basis. October being a festive month was particularly low. November onwards, volumes have been improving and demand should gain some more momentum as we progress into Quarter 4. On a Year-on-Year basis OEM has been the fastest growing segment coming from a low base. Exports have been adversely impacted by macroeconomic headwinds across geographies. However, we believe demand will improve going forward. Some of our recent launches have seen a good response. The Forex situation is also stabilizing in many of our export destinations and channel destocking has played out, and the order book is improving, going forward. We are confident in the medium to long-term potential of our international business and continue to invest disproportionately on product as well as market expansion. As the macro headwinds subside, we are hopeful of achieving sustained growth in this vertical.

In terms of demand outlook, the domestic situation seems to be steady. Inflation has moderated. Key high frequency indicators are stable. Government spending is expected to increase on the back of buoyant tax collections. Rural sentiments are also expected to improve with better rabi output. Growth may moderate, but we do not see any major downside risk in the near term. On the export side apart from the ongoing geopolitical situation, recession may also play out in major economies. However, given our positioning in international markets and target segments like agriculture, the impact should be limited.

With respect to margin performance and cost outlook, the raw material situation has been benign as expected. Crude inched up during the quarter, but is hovering around $80 to $90 per barrel. Rubber softened a bit further. However, domestic availability was a challenge as producers were holding inventory. Our commodity basket cost reduced by about 4% versus Quarter 2, slightly better than what we had guided. As a result of beneficial RM and lag effect of earlier price increases, our gross margin expanded by 219 basis. Some of this gain was offset by lower volumes and increase in employee cost due to increments. Hence, our standalone EBITDA margin expanded by about 160 basis points over Quarter 2 to reach 8.7%. Basis our current purchases in pipeline, we expect raw material basket to further decline by about 2 to 3% in Quarter 4. We are monitoring the situation closely. Near term global economic outlook will keep a check on commodity prices however, China coming back post COVID impact will be a key variable to watch out for.

With respect to CapEx, we are sticking to the FY 23 CapEx guidance, of about Rs. 750 crore plus maintenance CapEx. Since we have largely completed all our announced CapEx in PCR, TBR, two-wheeler our CapEx requirement for FY 24 will reduce. We are fine-tuning our workings. However, as per initial estimates, we'll be spending about Rs. 500-550 crore as growth CapEx in FY 24. Major part of this will be towards the Off-highway expansion that we had announced last quarter and some balanced portion of Chennai PCR. We will get back with a refined number in our Quarter 4 call. The Off-highway CapEx of about Rs. 395 crores is expected to be completed by December 2024, and we are hopeful of global macroeconomic situation stabilizing by then. We would've also expanded our reach and product range, which will further help achieve optimal utilization in a reasonable timeframe.

We launched our SUV platform, Cross Drive AT, with an aggressive all terrain pattern. We are also proud to be front-runners on energy efficiency. So far, 38 (note: please read it corrected as 25, which got inadvertently mentioned as 38 during the call. You may also refer to page no 9 and 13 of the CEAT – Investor Presentation Q3 FY23) of our products have received BEE 5 star ratings and to supplement that we launched a media campaign along with our brand ambassador Amir Khan to spread awareness about the energy efficiency of our tires.

From the manufacturing side, we are proud to be the first tire company in the world to get Lighthouse Certification from the World Economic

Forum for our Halol Plant. This certificate is given to a select group of companies around the world who have seen substantial efficiency or quality improvement using industry 4.0 technologies such as IOT, sustainable production, artificial intelligence, data sciences, etc. We have been on this journey since the last few years and undertook multiple digital transformation projects, and we have started reaping various benefits such as higher productivity, lower wastage, lower energy consumption, and higher use of green materials in our Halol Plant. We will be implementing this in other plants as well.

On ESG, we continue to make remarkable progress. Apart from the 5 star ratings I mentioned earlier we have also reduced our water consumption per ton of production by about 25% Year-on-Year. Other initiatives like alternate transport, renewable power, tire weight, rolling resistance, continue to make good headway.

Overall, as the quarter saw further margin recovery we expect this to continue into Quarter 4 as well. As gross margin normalizes, we will be able to demonstrate meaningful gains from operating leverage, premiumization, digitalisation, and cost optimisation initiatives going forward. Lower CapEx and hopefully better margins will further strengthen our balance sheet, cash flows, and return profile in the coming year. With this, I hand over the call to Kumar.

**Kumar Subbiah:** Thank you Anant. Good evening, ladies and gentlemen and thank you for joining us for our Quarter 3 FY 23 Earnings Call. I'll share some further financial data points with you post which we can enter the Q & A session. With respect to revenue, our consolidated net revenue for the quarter stood at Rs. 2,727 crores, a Year-on-Year growth of about 13% contributed by mix of both price and volumes. In the first nine months, our consolidated revenues stood at Rs. 8,440 crores, a growth of about 24.7% over the first nine months of the last year. Coming to gross margin, our gross margin for the quarter expanded by about 200 basis points over Quarter 2 largely driven by lower raw material costs, our vendor raw cost declined by around 4% over Quarter 2. The expansion of gross margin is the main contributor for the improvement in EBIDA margin to the tune of about 100 basis points in Quarter 3 versus Quarter 2. And drop in raw material cost was largely contributed as Anant mentioned due to drop in the prices of crude derivatives as well as natural rubber. Coming to our CapEx, our total CapEx outflow during the quarter at a consolidated level was about ~Rs. 218 crores. That includes both project as well as routine maintenance CapEx. Our total CapEx outflows stood at Rs. 679 crores in the first nine months of the year, which is largely in line with our full year CapEx plan of about Rs. 900 crores. Coming to Working Capital, during the quarter we took multiple initiatives to bring down our overall inventory to the tune about Rs. 290 crores. That helped in augmenting our operational cash flow, improving the quality of working capital, and also reducing the dependence of that debt to fund our CapEx. Our overall consolidated debt increased by about Rs. 38 crores during the quarter and our debt level at a consolidated basis stood at Rs. 2,341 crores as of end December.

Operational expenses part, our employee cost increased by about 10% Quarter-on-Quarter due to impact of annual increments and also some new wage settlement in one of our factories, while other expenses declined due to lower volumes and efficiency improvement measures. Overall, our operating expenses were lowered by about 5% Quarter-on-Quarter partly due to lower scale of operations and balanced due to tight cost control exercise during the quarter.

An update on Sri Lanka, Sri Lanka continues to see challenges. While volumes saw some improvement, due to inflation and change in income tax both for corporate and individuals from 18% to 30% effective 1st October, 2022 contributed adversely to a tune of about Rs. 6 crores in PAT.

Depreciation was at similar level for the last quarter. Our interest expenses went up by about 14% during the quarter, largely due to increase in interest rates and slightly higher level of average debt during the quarter.

I would like to give you an update ongoing case with Competition Commission of India. Earlier this year, we had received an order from Competition Commission imposing a penalty on some other Indian tire companies where the penalty on CEAT was about Rs. 252 crores. We filed an appeal against the order before NCLAT. NCLAT in its order dated 1st December has remanded the order back to Competition Commission of India for reconsideration and NCLAT has also observed errors in the CCA order leading to possibly wrong conclusions.

We are happy to inform you during the quarter credit rating agency CARE Rating carried out risk assessment, and they have reaffirmed AA long-term rating and A1+ for short-term with the outlook maintained as stable.

Overall, our standalone EBITDA stood at Rs. 237 crores with a margin of 8.73%, an expansion of 160 basis points over the previous quarter and 323 basis points improvement over the same quarter of last year.

Our consolidated profit after tax for the quarter stood at ~Rs. 41.04 crores, which compares well with Rs. 5.8 crores reported by us in Quarter 2. We can now open the floor for Q & A. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press Star and 2. Participants are requested to use handsets for asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

First question is from the line of Siddhartha Bera from Nomura, please go ahead.

**Siddhartha Bera:** Yeah hi sir. Thanks for the opportunity. Sir my first question is on the volume so if you look at the current quarter, can you please elaborate a bit more on how has been the growth on the overall basis compared to last year, same quarter, and if you can break it up into other segments also.

**Anant Goenka:** Right so in terms of overall growth our volumes have grown in single digits, low single digits. Value has grown at strong double digit levels because of inflation. Most of this growth has some from high growth in OEM. Replacement has generally been flattish and exports have seen some amount of negative growth in volume terms on a Year-on-Year basis. So largely what we are seeing is two-wheeler market in OEM is clearly seeing some amount of stress and pressure at this point, particularly on the motorcycle side. Rural markets are still to come back to normalcy and for us motorcycle is an important segment, which is seeing relatively some stress. With respect to truck and bus segment has seen very strong growth on the OEM side because last year itself was a very low base. PC/UV has gently seen good growth on a Year-on-Year basis, on a Quarter-on-Quarter basis also there has been just about marginal growth led by UV segment. So we are seeing the higher categories doing relatively better. The base categories not performing as well because of large high inflation impact on, say two-wheelers, motorcycles and low value vehicles.

**Siddhartha Bera:** Sir on the replacement side possible to elaborate on the growth across TBR and two-wheeler, especially for the replacement segment?

**Anant Goenka:** So in value terms or volume terms?

**Siddhartha Bera:** In volume terms, sorry.

**Anant Goenka:** So on a Year-on-Year basis replacement, as I said, has been flattish. Truck and bus overall has been flattish, but Off-highway tire segment has grown very well, 30% type growth level. Two-wheeler has seen some negative growth as I shared, and PC/UV has just seen single digit growth because more of that growth has come from UV in double digits, whereas passenger car has been flattish on a Year-on-Year volume basis.

**Siddhartha Bera:** Understood. So sir now the point is in general, if you, just now you said entry level segment demand still remains impacted so under this backdrop how do you expect the growth to behave in the coming quarter? Do you expect some improvement from the current levels or what are you picking up in terms of at the ground in terms of outlook?

**Anant Goenka:** No, we are optimistic about demand. There will not be a sharp uptick or anything, but there should be steady growth. I'd say early part of January has seen some challenge on the CV side with, you know, North and parts of East slowing down because of extreme climate conditions, but I think from Feb onwards things should bounce back. I think with a good rabi crop rural demand also should get better and the inflationary impact at some point two-wheeler also I feel has relatively bottomed out. We know, we can see the results of other two-wheeler players where really demand has come down over the last few years time. So I don't see too much of drop. On the EV side we are relatively strong and we've established a very strong market share with presence in over 70% models. And as two-wheeler EV picks up we will be in a much better position to gain in the market as well. I think PC/UV demand on the OEM side will be good in Quarter 4 with multiple models having a sharp, I mean, very high waiting list in that sense. And our acceptance in OEMs is consistently going up across all categories, particularly in UVR segment, commercial segment. These were a little bit weak for us, but I think things are getting much better as we see. Surprisingly on the export side there's a lot of concern on recession, but I think we also expect export to have bottomed out in Quarter 4 and things should see a little bit of steady growth in Quarter 4 versus even Quarter 3. It's a little bit of a farming, good demand season as well. So Off-highway tire will also see slightly better growth and the geopolitical issues, currency fluctuation while they remain in few clusters it has got better in certain areas. Brazil is holding up well, so I'm a little bit more optimistic in Quarter 4 versus Quarter 3.

**Siddhartha Bera:** Understood sir. The second question is on the pricing side so was there any price increase in the current quarter or in the current month, in current Quarter 4 or any price changes you have done in there?

**Anant Goenka:** So there were some small price increases under 1% on average across the board. Trucks saw on the Bias side about 1, 1.5% price increase. UV, there was a increase of about a 1.5%. So overall small price increases, but we expect this to now stabilize with inflationary pressure also coming down.

**Siddhartha Bera:** Understood, but sir on the commodity side which you have said that you expect 2 to 3% further improvement in Q 4, and I'm assuming this will be largely led by lower commodity realizations, which you are getting, but given that the demand remains weak, do think there will be a requirement especially to support demand by sort of some discounts or incentives?

**Anant Goenka:** No, I don't think so. I think we still have some catching up to do to reach double digit margins. Unless there is some competitive action that happens, we may have to respond, but at this point I don't see any decision or we taking price drops or discounting at this point.

**Siddhartha Bera:** Understood sir, thanks a lot. I'll come back in later.

**Anant Goenka:** Thank you.

**Moderator:** Thank you. The next question is from the line of Ajay Surya from Niveshaay, please go ahead?

**Ajay Surya:** Yeah, so congratulations on a good set of numbers. My question is regarding the debt level. So currently it stands around Rs. 2,300 to 2,400 crores debt level on consolidated business. So what would be the repayment schedule in coming two, three years?

**Anant Goenka:** Kumar, would you like to take that?

**Kumar Subbiah:** Okay no Rs. 2,300 has a combination of both long-term and short-term. And from long-term point of view in terms of repayment would be to the tune of about Rs. 300 crores next year, but that does not mean it would translate to reduction drop in debt level because we still have undrawn limits in the overall sanctioned CapEx. So we don't have any pressure in terms of cash flow with respect to repayment of long-term debt. We mostly look at our total debt and in the event there is any obligation with respect to repayment of long-term debt in one of the long-term debt instruments, we also have undrawn long-term debt, which we would exercise.

**Ajay Surya:** Okay. My next question is regarding the overall industry has gone through a significant CapEx in last four, five years so do we see any oversupply in the industries in coming years?

**Anant Goenka:** No, I don't think so. I think everyone who has taken capacity increases in their own respective segments. For us we have over-invested in the passenger side where we want to gain market share, whereas on truck, we have been fairly conservative. We have also gone strong on the OHT segment. On two-wheeler, we have hardly done any investment where market has seen negative growth and as I've shared in my past calls as well, the market itself has seen a fair amount of contraction, particularly in the passenger side in the last three, four years. So if you look at the longer term, one, two, three years hence we feel that the overall sector has to bounce back and we are ready for that at least.

**Ajay Surya:** Okay thank you. That's it from my side.

**Moderator:** Thank you. Next question is on the line of Pooja Rathi from Yellow Jersey Investment Advisors. Please go ahead.

**Pooja Rathi:** Thank you for the opportunity. So my question is the CapEx for CEAT like we had a talk on industry wise, but for CEAT which are the primary segments that you are looking?

**Anant Goenka:** Right, so for us the primary segments from a CapEx perspective that is pending is some of the downstream equipment of passenger car in

Chennai. In Off-highway tires we had announced in the last quarter just about Rs. 400 crores. So these are the two CapExes that would be large and then largely it is the latter half for the balance CapEx that is left of all the other categories, but largely these are the two categories that will come-in in the next year.

**Pooja Rathi:** Okay. Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Chirag Shah from Nomura. Please go ahead.

**Chirag Shah:** Yeah I sorry joined little late. I just wanted to understand your comments on commodities what happened in the quarter and how you looking at ahead from next quarter perspective also, and slightly from next year perspective also?

**Anant Goenka:** Kumar, would you like to take that?

**Kumar Subbiah:** Yeah okay Chirag in the last quarter our overall raw material cost came down by about 4%. And in the beginning of the call, we indicated that we expect in Quarter 4 raw material cost to go down in the range of 2 to 3% over Quarter 3. So that is outlook that we have as far as Quarter 4 is concerned. And beyond Quarter 4, it entirely depends on what happens to crude and other materials. So the immediate term outlook is this.

**Chirag Shah:** So that we saw last quarter and in the Q4 is more driven by rubber or more driven by crude derivatives?

**Kumar Subbiah:** So it is a combination of both, crude as well as natural rubber.

**Chirag Shah:** Okay so second question involves historically we have seen that with a lag industry tends to pass on the benefits. We always hope that we will be able to retain it, but so is there a change that you foresee this time, that there is more sanity as compared to the past in the industry and how do you look at your margins as well as profit equity in general?

**Anant Goenka:** Right so if you look at say the last 10-year cycle there was a drop in raw material pricing that happened from 2010 - 11 to 2015, 16 or 17 or so. At that time, I think the industry was able to maintain prices and it caused margins to go up. I think it's difficult to give an answer what will happen going forward, but there's been a fair amount of CapEx that has been at least from CEAT side, and we will aim towards double digit margin in the long-term.

**Chirag Shah:** Okay and one housekeeping question, if I can ask what was the volume growth for the Quarter?

**Anant Goenka:** Volume growth was on a Year-on-Year, it was about low single digit.

**Chirag Shah:** Low single digits so it will be sub 5%, right?

**Anant Goenka:** Yeah.

**Chirag Shah:** Okay. and last question is on the Off-highway tires, if you'll just share some updates in terms of ramp up in terms of SKUs and in terms of market given the way the so-called macro headwinds are playing out?

**Anant Goenka:** Right so we are still seeing good growth in the Off-highway tire segment. I'd say that from a seasonality perspective, this is a weak season, but Quarter 4 should be better. Replacement picked up well in terms of growth from Quarter 2 to Quarter 3. Exports are seeing some amount of headwinds at this point of line, but we are quite optimistic about Quarter 4 onwards, so we will see better growth in Quarter 4. US is doing well. The demand slowed down there is less than EU and from Feb onwards we clearly expect things to get better because we are continuously expanding our range. We have about close to 700 SKUs across the board, which covers more than 80% of the products that are needed. So we continue to remain optimistic on the Off-highway tires. There has been some slowdown in the international business, but not the fear and the overall recessionary impact that you are hearing of in Europe, agricultural segment gets much less affected.

**Chirag Shah:** Thank you. Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari. Please go ahead.

**Ashutosh Tiwari:** Yeah. Hi firstly on this working capital Kumar you mentioned that inventory has come down by roughly Rs. 290 crores in this quarter versus second quarter?

**Kumar Subbiah:** Yeah, true, it’s right.

**Ashutosh Tiwari:** So one was the reduction in the payable as well because debt has still increased marginally Quarter-on-Quarter?

**Kumar Subbiah:** There was an equivalent amount of reduction in payables also. So therefore, at net working capital level the working capital was very similar to as of end September, but the quality of working capital improved. Generally when you reduce inventory, the impact on payable comes with a lag of, two to three months. What you pay in Quarter 3 is actually what you receive in Quarter 2 largely. Similarly any reduction initiative that we took in Quarter 3, the benefit of that in terms of payable will happen in Quarter 4. And overall another thing this approximately at standalone basis the debt moved up by about Rs. 50 crores against Rs. 218 crores of CapEx so balance Rs. 168 crores came from our own internal accruals only for funding our CapEx.

**Ashutosh Tiwari:** And working capital how should one look at in this quarter, like say, will it inch up in fourth quarter, or will it remain broadly stable?

**Kumar Subbiah:** See, Quarter 4 generally tends to be a, we'll have a higher level of activities. So in Quarter 3, normally the scale of operations is lower than the rest of the year so you can afford to bring your inventory down. There'll be reduction in your overall receivables. In Quarter 4 we will have little more receivables. We'll have to operate at a higher level of inventory because of a higher demand in March and April. So we expect increase in working capital, particularly the current assets side in Quarter 4. And maybe there will be increase in current liabilities also. Will offset part of the increase in current assets. So overall we'll operate at a higher level of working capital, excluding payables.

**Ashutosh Tiwari:** Okay and next year we guided about Rs. 550 crores of project CapEx and then plus maintenance and considering better margin is it fair to assume that debt probably is now near the peak at current levels?

**Kumar Subbiah:** No, I think Rs. 550 plus there will be some routine CapEx and maintenance CapEx that we have. It depends on that. It is possible to maintain the debt, should the margins remain at a double digit level. So I think it depends on the margin. So it's better to wait, get into the next year and then provide some kind of an outlook with respect to debt. But as of now, we are getting into an year where we would be spending less CapEx compared to the current year. So it should have a positive impact on debt. Whether it'll translate to any drop in debt or marginal increase in debt would entirely depend on operating cash flow, where there is a strong linkage to margin. So it looks will not be very significantly higher.

**Ashutosh Tiwari:** Okay and you can you share what is utilisation level currently in PCR and TBR segments?

**Kumar Subbiah:** In case of TBR currently our utilisation level in the quarter was about 80 to 85% level. PCR is also at a similar level.

**Ashutosh Tiwari:** Okay and is there a possibility to de-bottleneck capacity a bit in PCR, TBR or we probably are at full right now?

**Kumar Subbiah:** No TBR currently, our capacity utilisation is less than a hundred percent only because of the de-bottlenecking exercise that we carried out last year. So whereby the capacity of TBR at Halol factory went up from 1,10,000 tires to around one like 1,30,000 tires. So that is the main contributor and so that work has already happened. In case of PCR we have enough capacity between our Halol factory and Chennai factory so there's no immediate plan to debottleneck PCR capacity, considering that we already have adequate capacities to meet the demand.

**Ashutosh Tiwari:** Okay and this softness of exports while you also ensure that OTR still is doing well Off-the-road tires is still doing well. So is it like PCR was soft in recent times, like last quarter?

**Anant Goenka:** No we are seeing a slowdown across the board if you look at Quarter-on-Quarter numbers, including Off-highway tire, but we are overall optimistic that maybe this quarter may have bottomed down in terms of exports. That's what we wanted to say.

**Ashutosh Tiwari:** And how the pricing involvement in export markets?

**Anant Goenka:** It has been positive. Right now with demand slowdown maybe we don't see any increase in prices happening, but it's been similar to replacement market in terms of price shifts.

**Ashutosh Tiwari:** And lastly, I missed on this two-wheeler replacement. How's that doing right on India?

**Anant Goenka:** Two-wheeler replacement is largely flattish at this time or still seeing some slowness. Scooter is doing a little bit better, but motorcycle is quite slow at this point of time. So overall that's the one market which has seen negative growth, actually I would say across yeah...

**Ashutosh Tiwari:** Replacement as well?

**Anant Goenka:** Replacement, yeah.

**Ashutosh Tiwari:** Okay, okay thanks. That's all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Also participants to ask a question, please enter star and one at this time. Mr. Shah?

**Mitul Shah:** Good evening, sir and thank you for giving the opportunity. The question on the raw material basket sir, if you can give the prices during the quarter per kg?

**Kumar Subbiah:** Yes Anant I'll respond. Overall for us at the consolidated level, raw material costs came down by about 4% in Quarter 3 versus Quarter 2. And this is after factoring in the adverse impact of currency and so the net is about 4% and outlook for the next Quarter 4 is at anywhere between 2 and 3% drop we are expecting in Quarter 4 versus Quarter 3.

**Mitul Shah:** That you highlighted earlier. Sir, my question is on per kg basis, if you can give some absolute number, rubber and any other items, whatever you can share.

**Kumar Subbiah:** See, natural rubber prices in the beginning of Quarter 3 was in the range of Rs. 165 to 170 per kg in the local market and international market was about Rs. 160 to 165 range. And towards the end of the quarter, that Rs. 165 became Rs. 140 to 145 and international market came down to Rs. 140 to 145. There also it's more or less at that level, that range in which the beginning to end of the year beginning to end of the quarter movement was. In case of all other raw materials, the synthetic rubber derivatives the decline was very slow and happened every month a percentage or two and in terms of that, reflecting in the final product prices it took about at least one to one and a half month's lag was found. So there also like for example, synthetic rubber prices moved down from say $2,000 level to $1,800, $1,850 in the international market. I'm saying starting to end average would be a little lower and similarly fabric prices also at a similar level drop we saw from beginning to end of the quarter.

**Mitul Shah:** Okay, sir. Second question to Anant sir regarding replacement demand even after more than now, year or one and a half year base has been low, still why it's taking so much time this time for revival demand across the segments it remained very slow. Is it related to anything to affordability or any change in the replacement cycle or with the better quality replacement is getting along better?

**Anant Goenka:** Right so I think largely it is inflation that is at maximum impact whether it is across the board there is a fair amount of pressure on the Indian consumer at this point of time, led by rural demand, which we can see in two-wheeler motorcycle demand impact that we've seen in OEM as well, and therefore I would say it also comes onto the replacement segment or is an indicator I'd say that has been the biggest shift or impact in terms of demand.

**Mitul Shah:** Among all these segments which segment do you think will revive first in replace?

**Anant Goenka:** I think the least impacted segment has been the truck bus segment. It has already gone through some amount of slowdown in the last few years. Also we are seeing, in the last say six months the chip shortage has gone away so that has resulted in good OEM supplies also into the market. I'd say going forward, I'm optimistic about PC/UV, particularly UV demand getting strong and I would say the other would be two-wheeler overtime should also pick up because base effect will be quite low at this point of time. I'd say for going forward the base itself will result in higher growth.

**Mitul Shah:** Lastly on export side, which geographies do you think would give growth going forward right now its subdued for maybe for a quarter or so would remain like this, and within export markets also, which segment do you think will be adding growth going forward?

**Anant Goenka:** Right so for us Brazil has stayed strong at this point of time and continues to look optimistic. The other two geographies that we have invested in are US and Europe. For us these are going to be to continuously growing markets. I would say Europe may continue to stay slow for maybe another quarter, but things should get better after that because we have enough new tires and new ranges that we have launched for both these markets. So these are the three geographies that we are more optimistic about.

**Mitul Shah:** And within this segment wise any outlook?

**Anant Goenka:** This is largely passenger segment and truck radial segment both. Truck is on a very low base, so we will see good growth but passenger segment is the area where we've done larger investments. In terms of coming out with the range, testing those tires and then launching them in these respective markets.

**Mitul Shah:** Thanks and best of luck.

**Anant Goenka:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sumit from ASK, please call ahead.

**Sumit:** Yeah, good evening. So, just wanted to check one thing, which is more on export while we remain pretty positive on that area is it for CEAT or that's for market as a whole? I mean because we are increasing range, the base is small for us. So that is driving growth for us or it's market increment that we are seeing.

**Anant Goenka:** I can tell you for us I don't have enough input on specifically the market, but I would say for us we are seeing some amount of seasonal impact, mainly Off-highway tire is a very important part of our demand, and we are seeing that by Feb, March they need to fill up their warehouses by Quarter 1. So they place orders by Quarter 4. So as a result of that and our various SKU increases that we've done, we are quite optimistic, so I'd say it's more for CEAT. I don't have a response on how others will get affected.

**Sumit:** Sure. This was useful. Thanks a lot.

**Moderator:** Thank you. The next question is on the line Rishi Vora from Kotak Securities. Please go ahead.

**Rishi Vora:** Yeah thank you for giving the opportunity. First thing on this commodity basket so if I assume that commodity, current commodity prices stay at this level do you expect any more benefit to come through in first quarter as well, or fourth quarter is where we get the complete benefit of current RM basket?

**Anant Goenka:** Yeah Kumar?

**Kumar Subbiah:** See the benefit of Quarter 4 which we indicated 2 and 3% is largely, it considers all of the commodity drops that we have witnessed till December. In fact, in the last three, four weeks time we are seeing some increase in the prices of commodities. International natural rubber prices have moved up to the range of 80 to 100 dollars. Crude is also now operating at 85 to 90 $ range, more towards 87, 88 dollars. So if commodity prices stay where they are as of today, then we don't see an incremental positive impact in Quarter 1 over Quarter 4, unless some changes happen in terms of derivative spread or some drop in any one of the commodities otherwise, we are not seeing that.

**Rishi Vora:** Understood. My second question was on replacement segment demand. My understanding was that after the first wave of COVID and even second wave, we had seen a very strong rebound and replacement segment demand, at least on the consumer, like on two-wheeler and PCR segment. So my sense is base would be pretty good, right like last two, three years, we have would've seen some growth in the replacement segment for these two segments. Is my assessment correct or is there something I'm missing?

**Kumar Subbiah:** So I think the base effect would've only come in Quarter 1, on Quarter 1 growth of last year. From Quarter 2 of FY 22, things resumed to normal growth. So on a Year-on-Year basis, you will see decent growth or say even on YTD basis but on a Year-on-Year basis for Quarter 3 or say Year-on-Year Quarter 2 may not be as much as what you will see, because if I recollect right, Quarter 1 of FY 22 was when the second wave and that overall demand impact happened.

**Rishi Vora:** Right. So net still over the last three years replacement segment demand would've grown by mid to high single digit in PCR and Two plus segment?

**Kumar Subbiah:** Yes. Yes.

**Rishi Vora:** And this year like on CY basis what would be the replacement demand like replacement segment growth for the industry?

**Kumar Subbiah:** For YTD?

**Rishi Vora:** YTD yeah, yeah CY basis or YTD 9 months?

**Anant Goenka:** It would be positive growth. I can get back to you, Kumar anything you'd like to share here, but somewhere between 5 and 10% volume growth.

**Rishi Vora:** Okay across blended...

**Anant Goenka:** I don't have the data here, but I can get back to you on that.

**Rishi Vora:** Understood.

**Anant Goenka:** Don’t want to give a rough estimate without the data in front of me.

**Rishi Vora:** Understood.

**Anant Goenka:** I'll get back to you.

**Rishi Vora:** And what would be your estimate for the replacement segment demand growth going into next year, like you expect it to be mid to high single digit growth, or given the pricing increases taken by all the players, you expect it to be a little weaker?

**Anant Goenka:** So I think with the price increases happening, so at a value level, you will see some growth because that impact will come into next year as well to a certain extent, but at a volume level, I would just take an estimate of a GDP type number your estimate, that's how the market grows. If you're able to gain market share, then certainly a little bit better than that.

**Rishi Vora:** Understood and just last question on the quarterly performance so for standalone I see other expenses declining by 8% so it's just that in this quarter the spend towards advertisement is on the lower side and it should come back in the subsequent quarters.

**Anant Goenka:** Kumar would you like to add anything?

**Kumar Subbiah:** Largely the marketing expenses in Quarter 3 we maintain at Quarter 2. There's no major drop. Normally our marketing cost goes up during IPL period, goes up a little bit. The largest drop in prices in Quarter 3 other costs because of lower level of activities, so we mentioned that we have reduced our inventory, so we brought down our finished goods inventory, which means that our production was less than the sales and our distribution cost was lower and our operating expenses and factories were lower because they produced less. So it's largely relating to the level of activities, but marketing expenses at absolute level stayed at the previous quarter level.

**Rishi Vora:** Understood, understood. Okay it was helpful. Thank you so much for it.

**Moderator:** Thank you. The next question is on the line of Vishal from Swan. Please go ahead.

**Vishal:** Hi thanks for taking my question, sir. I missed the initial part of the discussion. I just wanted to know what was the CapEx for the company during the first nine months and what is the expectation for FY 23?

**Anant Goenka:** CapEx for the year we are looking at about Rs. 750 crores CapEx as we had said for the year. We've done nearly three fourth of that is what we've done. This is largely growth CapEx.

**Vishal:** Okay growth plus maintenance CapEx what is the expectation for FY 23?

**Anant Goenka:** About Rs. 900 crores Kumar, right?

**Kumar Subbiah:** Yeah, it is Rs. 900 crores and growth plus maintenance CapEx in the first three quarter nine months also approximately about Rs. 680 crores, 75% of the Rs. 900 crores. So we are tracking in line with our full year projection.

**Vishal:** Okay, okay and what is the expectation for the same growth and maintenance CapEx for FY 24?

**Anant Goenka:** So growth CapEx would be about Rs. 500-550 crores next year. Maintenance would be about Rs. 150-200 crores range.

**Vishal:** Okay and in FY 24, the growth CapEx would be mainly towards TBR segment. As you said, the TBR de-bottlenecking scope is already being exhausted by you and it is approximately around 80-85% utilisation level. So are we revisiting that idea of getting into TBR CapEx?

**Anant Goenka:** So the growth CapEx for next year will be the balance of PCR as well as the Off-highway tire investment that we announced in last quarter of about Rs. 400 crores is what we announced so some amount of that will come into next year.

**Vishal:** Okay, okay thank you sir.

**Anant Goenka:** And then there'll be a few other largely balancing factors in other categories.

**Vishal:** Thank you, sir. Thank you for taking my question and all the best.

**Anant Goenka:** Thank you.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** Thank you for this opportunity. Sir the Environment Ministry came with this draft notification for extended producer for Waste Tire, the regulation and there was a notification in the month of January. So what is the update on the same, sir and how are players like CEAT preparing to get this on ground? Any updates that you would like to share?

**Anant Goenka:** Right so there was a notification that was issued in July, but largely to comply with it, it requires a full ecosystem to be in place, the registered producers, recyclers, tire collection. So I think here that implementation is not fully complete. So here we are working with, the ATMA body is working with the Central Pollution Control Bard, MOEF etc. to figure out the whole execution plan. But we will of course fully comply with the requirements. We want to be leading in terms of thought on sustainability. But I'd say that there are certain practical elements that are still to be ironed out, after which we will get some more clarity. We are already using recycled materials in part of our product recipe and all of that. So we still need to understand the net impact and once we get some more clarity, we can share the same with you.

**Saket Kapoor:** As you just mentioned that the ecosystem is not prepared for the sense how to locate where the tire is and whose, the way the notification was as if the entire responsibility was put on the producer means the company whose tire it is that, that the responsibility being borne by the company to get it recycled. So as of now, sir the nitty gritties are still to be worked out. That is what the latest on it or are we continuing the process as per the notification?

**Anant Goenka:** No, no. Like say for example, there has to be a portal in place where there will be certain registered recyclers. Now all of that is still work in progress because even if you're recycling, are you doing it from the right person? Are they registered? Do they have the various licenses that are there? So that clarity and that is still work in progress.

**Saket Kapoor:** Right, but it's going to be the order of the day going ahead. That is what...

**Anant Goenka:** Yes, we feel so, yes. There can be a delay in terms of timeline. There can be changes in rules in terms of the percentages that the responsibility will be for each tire company, for the industry every year I believe goes up every year on a certain basis. So those changes may happen based on the implementation speed and execution capability.

**Saket Kapoor:** Correct, sir. And on the demand side, as you mentioned in the opening remark as we have seen other players, the quad players also in the tire segment, they are also guiding for languishing of demand going ahead. So could you throw some more understanding that are you witnessing tapering of demand, especially from the replacement market and the factors that are leading to the same, sir?

**Anant Goenka:** No, I've already given a fair amount of insight into replacement demand. I think you could just have a look at the transcript later on.

**Saket Kapoor:** Okay, sir. Thank, thank you. Thank you for the same. All the best.

**Anant Goenka:** Thank you. Thank you.

**Moderator:** Thank you, Ladies and Gentlemen that would be our last question for today. I now hand the conference back to the management for the closing remarks. Thank you and over to you.

**Anant Goenka:** Thank you everyone for your continued interest in CEAT and coming in a little late in the evening for the call. Look forward to catching up next quarter. Once again all the best to you and thank you very much for your time.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Equirus Securities that concludes today's call. Thank you all for joining us and you may now disconnect your lines.