"CEAT Limited

Q4 FY'24 Results Conference Call"

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MODERATOR: **MR. ANIKET MHATRE -- MOTILAL OSWAL**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 Results Conference Call of CEAT Limited, hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniket Mhatre from Motilal Oswal. Thank you, and over to you, sir.

Aniket Mhatre: Thank you, Riya. Good evening, everyone. Welcome to the Post Results Conference Call of CEAT Limited. On behalf of Motilal Oswal Securities, I would like to thank the management of CEAT for giving us an opportunity to host this call. From the management team, we have with us Mr. Arnab Banerjee, Managing Director and Chief Executive Officer of CEAT; Mr. Kumar Subbiah, Chief Financial Officer; and the Investor Relations team.

I would now hand over the call to Arnab sir to begin with his opening comments, and then we can take the Q&A session. Over to you, sir.

Arnab Banerjee: Hi, everybody. Good afternoon, and welcome to CEAT's Q4 earnings call. I'll be taking you through the business updates for the quarter. And then I shall hand over to Kumar for his remarks on the financial performance, then we'll be open for Q&A.

To start with, we are pretty upbeat with the demand situation in India. Vehicle penetration is still low, and trucks still don't travel 1,000 kilometers per day. So there's a lot of headroom. Government has been focusing on infra development and national highway network has grown 60% in a decade. The top players in the industry are well positioned with capacities in place and balance sheets that enable matching pace with this group.

The tire industry is covering a growing share of India's manufacturing GDP and is expected to be reaching 3.4% of manufacturing GDP by 2032. We at CEAT had experienced a stellar year characterized by a very high profitability of INR635 crores for financial year '24 along with double-digit ROCE. The success was further underscored by generous dividend distribution of 300%, and we have had a stable margin for the quarter and also for the year and strong FCF generation. Our ratios have been strong with debt-to-EBITDA being lower than 1 and debt equity at about 0.4.

The tire industry being one of the most competitive industries in India is seeing good level of evolution with better pricing independence across segments. During quarter 4, we witnessed price cuts in TBR segments by some of the players. But at CEAT, we largely maintained the pricing with only marginal cuts in category, while we actually enhanced prices a minor way, in the passenger segment as well as farm tyres.

Quarter 4 and the entire financial year has been a momentous year for us because we are celebrating 100 years of our existence in the tire industry. We continue to strengthen the brand with targeted marketing expense. CEAT has once again secured the rights to the IPL Strategic

Time Out for the next 5 years so this will be a cumulative of 14 years now were brand property has been with us. Volume performance we grew by 5.4% in the quarter over last year and our replacement market particularly has done well in quarter 4. Exports, grew by 22% on volume and we've witnessed robust growth from Middle East and Brazil along with Europe.

Off-highway tires also witnessed good growth in LatAM and the U.S. market. Replacement grew by 5%, led by growth in TBR, passenger and 2-wheeler segment. With our focus on premium categories we have been able to improve our saliency in premium segments in all categories. PCR market share in replacement again increased this quarter, and now we are close to 17% market share. In 2-wheeler, we have crossed 35% market share and maintain leadership. We have gained market share in TBR as well, though we are still in single digits.

OEM volumes in quarter 4 declined marginally, primarily due to decline in CV and in 2-wheeler tires. Also on a full year basis, our volumes grew by 6.5%, led by export and weaker growth in replacement and OEM segments. By way of demand, domestic situation, as I mentioned, is upbeat, inflation has moderated. We expect above normal rainfall in the forthcoming monsoon season. We expect in most categories, high single digit to touching double-digit kind of volume growth in OEM and replacement markets.

The landscape of tire manufacturing is also being reshaped by increasing focus on sustainability and the already well-known trends of CAESwhich is connectivity, autonomous, electrical and shared mobility.

On the margin front, we should share first that the commodity basket has been flattish in quarter 4 versus quarter 3 in line with our guidance. Natural rubber prices are trending high which had marginal impact in Q4. But if this trend continues, we could have an escalation of RM cost by 3% to 4% in quarter 1.

We have been able to maintain our pricing in OEM segment and export markets. Operational efficiencies helped us to not affect our margin profile significantly. Stand-alone EBITDA for the quarter stood at 13.4% and stand-alone net profit was INR 119 crores. Capacity utilization continues to be good in the range of almost 80%.

I will cover now the extended producer responsibility, which is EPR. In July '22, the Ministry of Environment, Forest and Climate Change issued regulations on EPR for waste are applicable to tire manufacturers and recyclers. This would mean that the goods sold in domestic market, in T -2 years will be considered as base for calculating our obligation. As per this, the company has an obligation as on March 31, 2024 for FY '24 and also for FY '23.

We have provided for the same on a prudent basis, while the matter has been represented to the government with the company and industry forum to apply EPR prospectively and with changes in modality. We estimate the overall liability to be INR107.2 crores for both years FY '23 and '24, and this has been provided in the books in the current year. Out of this, INR34.5 crores pertains to FY '23 obligations and has been disclosed as an exceptional item during the quarter and year ended March 31, '24.

There has been evolving clarity and the relevant ecosystem gradually coming into place for EPR related cost in action. Going forward, we shall be providing for 100% of the quantity of new manufactured tires based on this formula, this will work out to roughly 1.2% to 1.4% on domestic sales. We expect that we will be able to mitigate this impact on our margins in the medium to long term due to improved product mix, pricing and internal efficiencies.

On the future trends, electrification, we continue our good work in the electric vehicle segment. In the passenger EV segment, we have entered Tata Punch EV, which is a high-volume vehicle. With this entry, we have become a supplier to all EV OEMs that are locally manufacturing in India. We now have close 20% share in the passenger EV in India, and we also have a share of around 27% in the 2-wheeler EV ecosystem in India.

In the commercial EV segment, we have got an entry into switch Mobility's first vehicle as well as Volvo Eicher new SCV, which has been unveiled recently. Internationalization has been a key driver. We have launched 55-plus off-highway scale in Q4. Export business is margin accretive for us, and therefore, we'll continue to invest in product mix for agri Radial and PCR and TBR. Right now, the export constitutes about 19-plus percentage, and we would like to take this up to 25% in the next couple of years.

Mahindra launched their OJA tractors in U.S. completely fitted with CEAT tires. We are progressing well on channel expansion in U.S. market. The macro situation in Sri Lanka is improving gradually and passenger demand has improved there. However, commercial tire demand is still to come up.

On the premiumization front, we launched the steel radial sportrad and crossrad in the 2-wheeler range. This is meant for high-performance motorcycle. The current potential is about 3% of the overall market and is expected to grow fast. We are also associating with premium properties such as the KTM cup and we are sponsoring several adventure biking events as well.

Our share in premiumization continues to improve, and in PCR, cross drive, sport drive, drive and security SUV continue to gain salience in the whole category. We will continue to invest in marketing spends, which hover around 2% plus range year-to-year and which is the highest in the industry.

As mentioned earlier, our coverage for tires required for BMW, Audi and Mercedes continues to be in the range of 85% to 90% and despite rapid introduction of new models, we'll continue to launch products to keep the coverage at this range. We will continue to have highest RnD spend as compared to peers in the industry for new product development for Indian and global markets.

Our exclusive outlets have reached 550 numbers by the end of this year and our distribution expansion continues into the hinterland of the country. On the digital front, CEAT received smart manufacturing company title at CNBC that rating Manufacturing Summit 2024. We continue to deploy the Industry 4.0 initiatives from Halol to our Chennai plant in line with the light out concept.

We have had a good engagement in all social media platforms. We continue to focus on increasing our connect with end users digitally. Brand searches for premium vehicles and SUV grew by 9x, 60% increase in brand conversion volumes and 156% increase in average engagement per post per month compared to FY '23.

Furthermore, through website leads, we registered a 50% increase in premium sales. Our CapEx for FY '24 ended at around INR860 crores, the expansion projects are on plan. We reiterate our strategy of doing bitesize CapEx every year. In line with this strategy, we expect around INR1,000 crores of CapEx in FY '25.

We are focused on reducing our carbon footprint, tonne CO2 emission per metric tonne of production was lower in FY '24 by 7%, 36% of our plant power requirement is through renewable sources and at Bhandup plant, which is in the middle of Mumbai City, we installed an auto carbon charging system, which is good for the environment.

Natural rubber sourced by alternate transit route went up to 26%, and the rolling resistance of tires went down by 5%. Overall demand situation is good. We are upbeat about the India story, as I mentioned, and there is a mild inflationary impact in raw material prices there is an EPR impact, and we expect to mitigate the impact of this escalation through better management of our resources.

With this, I would now like to hand over the call to Kumar.

Kumar Subbiah: Thank you, Arnab. Good afternoon, ladies and gentlemen, and thank you for joining our quarter 4 FY '24 earnings call. As the year-end, I will share some financial data points relating to the quarter 4 and also full year, post which we can take Q&A session. Overall financial performance, our consolidated net revenue for the quarter stood at INR2,991 crores, a year-on-year growth of 4.1%, driven by increase in volumes. Our consolidated EBITDA for quarter 4 stood at INR400.9crores, which is 5.8% higher than the same amount of the previous quarter.

The EBITDA as a percentage is a little lower in the current quarter versus the previous quarter, mainly on account of advertisement cost and regulatory costs. The regulatory cost aspect has been already touched upon by Arnab, I'll also explain briefly in terms of the impact of it.

Coming to gross margin. Our gross margin saw an improvement of approximately 100 basis points, driven by better mix and the impact of higher inventory at the quarter. As we come into the current quarter, the prices of key raw materials like natural rubber and crude derivatives have shown an upward trend. In case of natural rubber, we're seeing an upward trend since the beginning of the previous quarter and the same is likely to impact our raw material costs in quarter 1 to the extent over 3% to 4%.

The crude has seen some correction in the last 2 or 3 days, and we hope it's sustained at the current level and if it sustains the impact on raw materials could be lower. Considering these factors, we'll continue to keep a close watch on RM situation and based on how it evolves, well appropriate decisions should be taken.

Coming to debt, CapEx and working capital. We spent about INR260 crores of CapEx during the quarter so far on a full year basis, we spent about INR866 crores, which is broadly in line with our indications given in the earlier interactions.

I'm happy to share with you our overall operating working capital came down by about INR102 crores during the year and largely driven by improvement in inventories and receivables. We are also happy to share with you that we generated a healthy free cash flow of INR857 crores during the year, which is the highest and that helped in terms of funding all our CapEx during the year from our internal approvals.

Our consolidated debt stood at INR1,629 crores as of 31st March, a drop of about INR470 crores versus the same period of last year. Our debt to EBITDA on a consolidated basis stands at a comfortable level of 0.97 and debt equity of 0.4. Our debt EBITDA of 0.97 is the lowest in the recent years.

Coming to operational expenses, our employee costs largely remained same level as quarter 3. Our marketing spend has increased during the quarter on account of new campaigns, participation in IPL and WPL. This will continue in quarter 1 as well as due to IPL in quarter 1.

For the year, as explained earlier on EPR. During the year, we made a provision of about INR107 crores towards extended producers responsibility. Our of INR107 crores, INR35 crores related to the previous year, and therefore, we have reported that as an exceptional and balance amount has been shown as other expenses in our consolidated as stand-alone books.

In the quarter 4, we approximately provided about INR40 crores after adjusting the provisions that we made in the earlier quarters. The impact of this additional provision that we made in quarter 4 is close to about 1.3% of the EBITDA for the quarter, and this may be appropriately considered while making comparisons with the previous quarters.

Depreciation for the quarter increased due to higher capitalization and commissioning of our assets, and we expect it to remain at this level for coming quarters and in the first half of the year. Interest costs declined during the quarter compared to quarter 3 on account of lower debt and effective is largely the inter statement line in quarter 3, and we expect the interest rate to be in the range of plus or minus 25 basis points into quarter 2.

On a consolidated basis, we have an exceptional cost of INR58.17 crores. As explained just now, it includes close to about INR35 crores relating to EPR. We also have a voluntary retirement scheme launched in one of our factories and the cost of that is about INR7.99 crores and during the year, we also made some changes in the distribution model in Bangladesh and leading to reconfiguration of our business model.

And therefore, we took a call to take a write-off of some of the assets in our Bangladesh joint venture entity, and the impact of the same is about INR15.66 crores. Our overall consolidated profit for the quarter stood at INR102.3crores and on a full year basis, it stood at INR635.3crores.

In the Board meeting, the Board recommended a 300% dividend for the last year, which approximately translates to about 20% of our profits, and this is subject to approval by shareholders in the upcoming Annual General Meeting.

With this, we can now open the floor for Q&A.

Moderator: First question is from the line of Arjun Khanna from Kotak Mahindra Asset Management.

Arjun Khanna: The first question is on the extended producer responsibility part of it. Sir, if you could help us understand why was it just taken this quarter given that it came or was notified since 2022, November? The second part of the question is, are we registered as a manufacturer and recycler or what registrations have you taken? And in terms of the recycling, is the way of doing it ourselves and reducing this cost base of 1.4%?

Kumar Subbiah: You see this notification was issued in the year 2022, as you mentioned, around that period. For producers of tires to implement the recommendations of that particular notification. Some other conditions included having a portal registered dealer for recycling tires. So that infrastructure did not exist in '22-'23. In fact, even the first 9 months of the current year, '23-'24 also, the infrastructure was not fully in place. It is because of accounting prudence and to ensure that we follow the principles of conservatism, okay, we have made this provision. The company as well as the industry body has taken up with the government already to explore options or requested government to make it defective prospectively and also with some changes in modalities.

So it's in the absence of clarity with respect to establishing the impact of it and also inadequate infrastructure, okay. It was decided in the previous year, not to provide for the same thing. And even in the current year also only towards the end of the year, and the government started insisting on fulfilling obligations. It was felt that it is better to reflect it in our financial books.

In our books, we started providing from the beginning of the year based on our own internal estimates. When we came to a some kind of certainty with respect to the amount, we decided to provide in quarter 4, whatever was unprovided and also relating to the earlier year.

The next question, we are not recyclers. So therefore, how we would like to fulfill the obligation is to buy certificates from recyclers who will buy those tires from the market and then recycle them and convert them into an another useful product, and we will buy those certificates from them. And the cost that we have shown in our financial statement is the cost of certificates that we would have to buy from these cycles. And we have not registered ourselves as a registered recyclers. Those who are in the business of recycling have registered themselves in the portal as the registered recyclers.

Arjun Khanna: Sure. That's very helpful. So just as a supplementary question on this. In terms of EPR certified costs, have you seen an increasing trend? And are they available to the quantum that's required at this point in time?

Kumar Subbiah: No, it is not available. It all depends on what is the extent of obligation. And as we said, it is because of accounting prudence, we have made all the provisions, it is not available. It started some quantities started being available in the portal from quarter 4 of the last financial year, more in the later part of it. If someone were to theoretically arrive at the total obligations for this period of previous 2 years and what is required in the current year, a fraction of it is what is available at this point in time.

And in terms of pricing plan, I think it's too early to say anything. It's just starting. I think we need more time to understand whether the prices will remain at current market level or will it increase or go down. So I think we need more time.

Arjun Khanna: So just to understand the number that we have utilized for this quarter is essentially the current pricing in the market. Is that the right understanding?

Kumar Subbiah: No, we have not utilized. We didn't buy anything in the previous quarter.

Arjun Khanna: No, no. I'm saying the quantum. Yes. So the quantum for the accounting provision is the current price of the EPR certificate may not be available in that volume, but we have used that price into the quantity of recycling that we are supposed to that 35%, 70%, etc.

Kumar Subbiah: No. We have considered the current prices. We also made some understanding because the quantum involved is large. So we made certain assumptions with respect to what is likely to be the pricing. And accordingly, we have estimated the liability.

Moderator: Next question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, again, just to clarify this point, we have provided INR40 crores in the current quarter. And the remaining INR30 crores has been provided in the first 3 quarters. Is it the right way to understand this?

Kumar Subbiah: Yes.

Siddhartha Bera: Okay. And second is, when you say that the quantum provision for the next year will be somewhere about 1.2% to 1.4% of domestic sales. Again, this can vary depending upon the pricing in the market? Or do you think this is largely decided and it won't change basically if you look at the full year?

Kumar Subbiah: No, it's an estimate, and it will change because the cost of certificate is what we are taking it as a cost. If the certificate cost comes down or goes up, it will have some variation. It is more an indicative number for somebody to understand the implications of it. So needless to say, any movement in the prices will have some impact on the current estimate.

Siddhartha Bera: Got it, sir. And sir, my second question is volume...

Moderator: Could you please return to the question for a follow-up question. Next question is from the line of Amarkant Gaur from Axis Capital.

Amarkant Gaur: My question was regarding the RM escalations that we have seen in the recent past. The natural rubber prices are up significantly when the crude may not be. So in your estimate, how much price increases will we have to undertake to mitigate those kind of impacts on RM? And how much have we taken? And any clarity you can give on the price that you have taken yet.

Arnab Banerjee: Yes. So coming to the price hike, we did mention that we took a very moderate/ very little price hike in quarter 4 itself in farm and PCR not across the category. In the month of April, by April end this year, in this quarter, we have taken a price hike of around 1.5% in replacement and we are in the process of converting our orders to the new pricing in international business that also will be around 1.5% to 2% as it settles down. OEM is indexed as you know. So OEM pricing is will know the index and calculate the pricing end of quarter 1. So that is the pricing situation. So the price hike is -- the raw material hike is 3% to 4%, then you need about 1.5%, 2% at least to mitigate. So with the lag, I think we will be able to mitigate as to the price hike requirement.

Amarkant Gaur: All right. I have follow-up questions, but I'll fall back in the queue.

Moderator: Next question is from the line of Raghunandhan N. L.: from Nuvama Research. .

Raghunandhan N. L.: My question was again on EPR. Sir, can you please explain the computation because -- when I look at your last 2-3 years, 2 years of calculation, it comes to 1.5% of domestic sales in FY '23 for 35% 2 years ago and 1.4% for FY '24and for '25, you've given a range of 1.2% to 1.4%. One of your peer who also reported results today for them, the math works out to something like 0.8% to 0.9%. So as per the ETR document, it was showing that the calculation is based on weight into conversion factor into quantity. So how do we try and arrive at this number? How is the competition done?

Kumar Subbiah: Okay. See, this is applicable when you produce and sell tires within India, okay. So from that point of view, when you apply as a percentage on our total turnover, it may not be comparable with any other organization unless otherwise, the exports and domestic turnover percentage is in the same range or it's at similar levels, one.

Number 2, I clarified the estimate of cost could vary from 1 organization to another organization. To my knowledge, still 31st of March, nobody would have incurred any cost of significance, okay. So everything that is getting reported is on an estimated basis. So only when you actually incur that cost, you will get to know the real cost and this liability people will discharge over a period of time.

So from our point of view, when Arnab had indicated in his speech in terms of this number, he indicated as a percentage of domestic sales. If you were to convert the expected liability, what would that be based on that percentage. So you should at this point in time, take more as an indicator and the number of percentage to marginally differ from one organization to another organization, while we don't have understanding how somebody else has done.

I think it is on domestic sales. So on domestic sales, since it's not 100% at a certain percentage of our total sales, that is the way it would work out to. And it is also the note, it is around production, not on sales. Okay. If there's any difference between production and sales, that will also have some implications. What you have produced, if you have not sold, okay, you may provide based on production. But it may not exactly match with as a percentage of sales.

Raghunandhan N. L.: Just supplementing on EPR, would you need to use more recycled inputs as raw materials? Will this lead to increase in RM cost?

Kumar Subbiah: See, we already use some small percentage of recycled materials. And the product needs to be recycled, okay. It doesn't have to be incorporated in the tire manufacturer once again. Our endeavor is always as a responsible corporate, an endeavor is to see how to use greener material out to use a recycled material so that it has put less load on the ecosystem. So from that point of view, if there's an opportunity for us to use more, we will certainly use subject to our R&D and recipe permitting that. Okay.

But however, our endeavor is to see how to create that ecosystem that will develop in terms of capability to recycle these tires. I think that is the direction in which industry as well as our site will work towards.

Raghunandhan N. L.: Got it, sir. I'll fall back in the queue.

Moderator: Next question is from the line of Basudeb Banerjee from ICICI Securities. .

Basudeb Banerjee: Just wanted to understand like with this year with strong margin and good business, working capital also supportive good free cash flow generation, debt reduction. So what is the utilization segment wise? And what is the planned CapEx for FY '25, including maintenance, growth CapEx as such?

Arnab Banerjee: So plant utilization is around 80% in most cases, barring TBR where utilization is very high. We have almost fully utilised our capacity and we are expecting fresh production from our Chennai expansion project of TBR in quarter 2, scaling up in quarter 3 and quarter 4. So TBR is an exception. Otherwise, it's closing to 80% in all cases. CapEx is around INR1,000 crores with about INR250 crores of maintenance CapEx and about INR750 crores of growth CapEx, primarily in Chennai TBR project, then our Ambernath expansion of agriculture radial project and also in Chennai PCR projects. These are the 3 main projects for the growth CapEx will be deployed.

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

Rishi Vora: This quarter, our volumes grew by 5% and replacement segment also grew in that range. And you guided for a high single-digit, low double-digit growth in the coming quarters. So what are the key drivers for volume trajectory to improve from here on? Can you just highlight some of those that you are seeing on ground? .

Arnab Banerjee: Yes. So quarter 1 is a positive season for all kinds of tires because of the summer heat when tires are replaced where it is also high. So we expect strong volumes in TBR radials in replacement market that is. We expect strong volumes in passenger radials, which is also aided by the election season. And the rural and small towns are showing signs of recovery. We have had very strong growth in replacement in motorcycle and scooter in the past 3-4 months, we expect to continue in summer with a gaining market share in both passenger categories.

In the OEMs the commercial category is muted because of elections and is expected to stay in that zone till about August, September, when we might see a recovery in truck tires OEMs. Two-wheeler is doing very well in the second half of last year and expect it to do very well this year. They are still below the pre-COVID level. So we expect good headroom there.

And passengers may moderate a little OEMs. But still low single-digit growth is possible. In April, they grew by 1.5%. Globally, of course, in the international markets, we expect a small -- we expect the launch in the U.S. in the month of July or August quarter 2, that is strong growth expected in Middle East in Europe as well as Latin America. So that's the overall scenario of demand outlook across the 3 segments.

Rishi Vora: Sir, any ballpark number which you'd like to share for full year in terms of overall volume guidance, it is high single digit for full year across segments like on a blended basis?

Arnab Banerjee: Yes, we would be targeting about a double-digit kind of volume growth, high single digit to double-digit kind of volume growth across segments. That's an average of segment.

Moderator: Next question is from the line of Amyn Pirani from JPMorgan. .

Amyn Pirani: Just going back to the EPR, and thanks for all the explanation till now. Just wanted to clarify. So I think there was a rule that for a year, the provision, which has to be made is for the prior year or 2 years prior production? Or is it like what provision you're making in FY '24, that INR70 crores is for FY '24 production and FY '25 will be FY '25 production?

Kumar Subbiah: See, obligation for FY22-23 is 35% of T minus 2, okay. An obligation for FY23-24 is 70% of T minus 2. So that is the obligation. If we have any unit company tire manufacturers come into existence during this interim period, then the obligation starts 2 years after that.

Amyn Pirani: Okay. So for FY '25, you will be providing 100% of FY '23. Is that the correct way to think about it?

Kumar Subbiah: Yes. The base for that is T minus 2 production basis to arrive at the obligation.

Amyn Pirani: Okay, okay. Understood. And just 1 follow-up on this. You mentioned you will try to mitigate it through mix, price and efficiency. So given that this is going to impact all the tire companies, at least the domestic business of all the tire companies almost equally, are you not expecting that there should be a pass-through at least on the OEM side, which is already on a formula basis? And even on the replacement side, because this is something which is an extra cost for everyone? Or do you think that there could be companies which would not pass it on and hence, there is some competitive activity on this basis also?

Arnab Banerjee: So on the OEMs, we have started engaging with the OEMs. And as you rightly said, it is an indexed formula for most of the OEMs. So we are hopeful of the outcome, but its basis a discussion with the OEMs and resolution on a one-to-one basis. In the replacement market, yes, it's a competitive situation. There could be competitive activity. But it is just like for the channel and for the customer its just like any raw material input cost increase. So they are not really concerned whether it's EPR or some at other cost increase. So the price hike will be just taken as if an input cost has gone up and based on the competitive activity, of course.

Amyn Pirani: Understood.

Moderator: Next question is from the line of Mumuksh Mandlesha from Anand Rathi.

Mumuksh Mandlesha: Yes. Sir, I just wanted to understand on the market pricing environment in the market, sir? I mean you have taken a price hike in the end of April, particularly one large player is diverging in terms of price increases. So how do you see that kind of impact on the pricing for us?

Arnab Banerjee: The pricing, as I said, is not totally 100% dependent on competition as it used to be some 5-7 years back. There is some degree of pricing in demand that is possible. There is some degree of net share movements also that are possible. But individual players decide on their relative strengths and take those calls. So it has played out over the last 7- 8 quarters, and it will play out in the future as well.

The quantum of price hike one may decide to take in different categories may also be different, right. So we have taken the price hike basis our strength and where we believe that we can pass it on without any significant impact on our market share on our volumes. For example, in passenger car category, we took a minor price hike in quarter 4 and we gained market share in quarter 4. But it may not hold true for all categories for us, and likewise, for all the competitors.

Mumuksh Mandlesha: Understood, sir. Just Kumar, sir, what would be the impact of Red Sea on the freight cost for this quarter, sir?

Kumar Subbiah: No. See, freight rates have moved up for largely to movements to Europe, okay. And the rate increase has been happening since beginning of quarter 4. So it's almost 300% increase is what has happened in freight rates. So it stays at that level now.

Moderator: Next question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: My question pertains to the current quarter performance where if I adjust for the EPR provisioning, EBITDA margins have improved almost 120 basis points is the third quarter despite stable RM basket and like the impact of freight cost. So is this entirely due to mix improvement or there is something else which is not getting the structure?

Kumar Subbiah: Okay. See, I think you're referring to the gross margin has improved by about close to about 100 basis points.

Jinesh Gandhi: No, I'm referring to EBITDA margin. EBITDA margins have improved about 130 basis points if I adjust for the ETR provisionings.

Kumar Subbiah: If you adjust for ETR provisioning, so if you approximately, let's assume about 1% -1.2% kind of an impact of quarter 4. So if you added to the quarter 4 margin, it is not a 1% improvement. It is about 20 to 30 basis points improvement over the previous quarter. That's what it is. So that's largely attributable to better mix. I think as Arnab earlier mentioned, we grew strongly in replacement and exports. So that plays some role.

And if you're referring to gross margin, gross margin, the way it is computed. It has some impact on account of if you hold a higher level of finished goods inventory. The way gross margin gets reported, it will tend to show a little higher because you just the closing value of finished goods, which is include non-material component. And therefore, it might appear as a higher improvement in gross margin, but at EBITDA level, it gets neutralised.

So largely, I think if you add back, it's not a 1%, it is about 0.2%-0.3% improvement over the previous quarter, quarter-on-quarter.

Jinesh Gandhi: Okay. Okay. Got it. And second question pertain, given that there is such a strong outlook for demand, which we are looking at for FY '25 and we're already at 80% ex of TBR. Do we need to increase our CapEx investments to meet this growth and also meet our market share aspirations or we can manage to do this CapEx without looking at a large brownfield expansion?

Arnab Banerjee: As I mentioned, the CapEx utilization is higher for TBR. In TBR already, there's a big expansion underway at Chennai and we expect commercial production in quarter 2. So we are prepared for meeting the TBR demand and growing market share in TBR.

Jinesh Gandhi: And for other segments?

Arnab Banerjee: Can you repeat, please? .

Jinesh Gandhi: For other segments PCR and 2-wheelers and OTR?

Arnab Banerjee: For other segments, there is enough headroom to grow in the current capacity. And in PCR also, there is an expansion going on, looking at future demand of 2 to 3 years. So the current CapEx outlay of INR1,000 crores is sufficient to look after current demand as well as future demand in the medium term.

Moderator: Next question is from the line of Swechha Jain from Whitestone Financial Advisors.

Swechha Jain: Just coming back to the EPR provision. What I want to understand is, going forward, -- every quarter, we will make a provision of 1.3% to 1.4% of the domestic sales. Have I got this correct, sir?

Kumar Subbiah: So, it is an indicator. because it has just started in the quarter that went by, we had not incurred anything. So from our point of view, it's more an indicator, it could be in that range. It depends on the cost of certificates. We will look forward to we hope government considers the request of the industry. So it was more as an indicator. I think we can keep fine-tuning in the coming quarters once you get a better hold on the certificate market and also we are assuming the need for recycling increases. There could be more players coming into the market. So these things all these things influence.

Swechha Jain: But -- okay. Sir, but we every quarter or we will do like...

Moderator: Ma'am we're not able to hear you clearly.

Kumar Subbiah: So it will be an accrual basis from here on. I think the rational for making the provision in quarter 4 we explained earlier. From here onwards, it's going to be part of our normal cost subject to -- we are able to get some benefit through the interactions with the government. I think it will get adjusted appropriate. We look forward to it. But if it doesn't come, it will continue on a quarterly basis.

Swechha Jain: Okay. Okay. And just a follow-up, if I can ask. Actually, I missed the volume numbers that you were giving during the commentary. Could you just repeat those, if possible.

Arnab Banerjee: The industry growth. Okay. So if you are talking of CEAT's growth numbers, volume, and we grew by about 6.5% on a full year basis, 5.3% on a quarterly basis. And this was distributed across the segments with very high growth in two-wheeler and passengers and somewhat lower single-digit growth in overall truck bus. Specialty also grew close to double digit. TBR grew in single digits. So that's the kind of growth rate for Q4 Y-o-Y.

Swechha Jain: Okay. So this is the replacement or replacement growth, right?

Arnab Banerjee: It is overall. Overall.

Swechha Jain: Okay. So would you also give volume growth in replacement and OEM separately?

Arnab Banerjee: On OEM, as I mentioned, we grew well in replacement and OEM was moderate in quarter 4 overall. So most of this growth came from replacement and single tires.

Moderator: Next question is from the line of Nihar from Living Root Capital.

Nihar: But most of my other questions have been answered. I just wanted to ask, would it be possible to provide the market share breakdown by product or by segment category?

Arnab Banerjee: Are you asking for a replacement?

Nihar: So all of the segments, sir.

Arnab Banerjee: Approximately, as I mentioned in passenger, we are about 17-odd percent in replacement. 2-wheeler would be about 35% plus and truck bus radial will be still in single digits but approaching double digits and in OEM it is similar. The TBR will be higher at about mid-double digits, and passenger would be slightly lower than 17% and 2-wheeler will be around the same, slightly lower.

Moderator: Next question is from the line of Kaushik Poddar from KB Capital Markets Private Limited .

Kaushik Poddar: This is Kauhik Poddar. I hope you can place me.

Arnab Banerjee: Yes, Kaushik.

Kaushik Poddar: Okay. I'm speaking to you after for a long, long time. See, what is the stable margin you see? I mean, around 13%, 14% is the long-term margin you can -- we can take it at a long term, whatever the target or something? Or you can improve on it?

Arnab Banerjee: See, we don't give a guidance for future. We have been maintaining that we would like to maintain the EBITDA margin at in a tight narrow band because we invest when we can invest as we are investing in the IPL in quarter 4 and quarter 1 also we'll be investing heavily in the IPL and brand.

And when there's a raw material hike, which we cannot mitigate, we manage the investment onto the next quarter. So basically, we are trying to manage in a tight band, the EBITDA margin. And when that happens, usually it goes up over a period of time, provided there is no inflation impact. So there are many things at play. There's a sharp inflation, very difficult to manage the margin at current level. So but our endeavor is to manage it in a tight band.

Kaushik Poddar: Okay. And my next question, which is that you said that as far as the passenger segment goes PCR, you are able to at least set the price. I mean which are the segments in which you are the price setters and the segments you are the price takers in other -- which other segments? .

Arnab Banerjee: There's no clear position that has evolved like that. In truck bus radial, where we are a single-digit market share player, we have price followers. That's for sure. In the other 2 segments, it depends on the situation and our need to gain market share. So sometimes we have been able to take independent calls on pricing in these 2 segments.

Kaushik Poddar: Okay. And see, as far as the market share goes since you have such a high share in the 2-wheeler segment, I mean, probably you are the highest. So don't you have a pricing power that much more there?

Arnab Banerjee: We do have pricing power relatively better than 2-wheelers segment. .

Moderator: Next question is from the line of Aashin Modi from Equirus Securities. .

Aashin Modi: My question was in the IPL expense. Could you quantify its impact during the quarter? And what sort of impact could we have in the next quarter because of this [inaudible 0:54:02]

Arnab Banerjee: It is 2% to 2.4% roughly, it varies. So it fluctuates around that. It's to be more above 2% in these 2 quarters and then maybe moderate in the subsequent quarter.

Aashin Modi: One last question is regarding risk status reduced our debt significantly. So that INR460-odd crores this year. So how do we cede reduction in the next year or next couple of years.

Kumar Subbiah: No. See, this year, free cash flow generation has been very healthy. I think maybe highest. Going next year, I think it was indicated that our CapEx plan for next year is about INR1,000 crores, okay. And -- we would also like to normalize working capital, okay. So because at the end of the day, we have to meet the service levels across the geographies. So we managed to fund all our CapEx from internal accruals last year and still managed to bring our debt down.

In the first half of the current year, we see some cash flow happening. In case of EPR, which we spoke about, that will be something, we've declared dividend just now that itself translates to INR120 crores of dividend. So we'll keep in mind, I think we will keep the debt within our range, okay, within rate. We are around INR1,600 crores of debt on a stand-alone basis. We'll keep within the range of INR200 crores, INR300 crores on the higher end. And we'll continue to work in terms of opportunities to bring the debt down as and when it happens.

But just want to share with you that we are comfortable at current levels of leverage. So we all know over leverage is bad. But under leverage is not good also. So from that point of view, we'll try to manage. And the reason for keeping the CapEx, it's more a preparation for the following year and later on in terms of capacities is also because of the fact that the balance sheet is bringing. So we'll operate within this.

Moderator: Next question is from the line of Amyn Pirani from JPMorgan.

Amyn Pirani: I just had a clarification. So what is the TBR capacity right now? And how much are we increasing it by in the expansion that we're doing in Chennai?

Kumar Subbiah: So our factory -- existing capacity about 130,000 tires per month. It can be stressed a little bit -- and what we are putting up in Chennai is about 45,000 tires per month progressively.

Amyn Pirani: Okay. So approximately 30% expansion on the TBR capacity?

Kumar Subbiah: Yes.

Amyn Pirani: Okay. And this will be available for production in FY '26? Or this will start to become available during FY '25 itself?

Kumar Subbiah: Our intention is to commission the plant in quarter 2 of the year. Okay. Normally, it follows to the normal ramp-up route. So quarter 3 onwards it will start contributing to sales. .

Moderator: Next question is from the line of Raghunandhan N. L. from Nuvama Research.

Raghunandhan N. L.: Sir, on the export outlook side, if you can give some more color in terms of how you see the testaments of double-digit growth, which markets, which products are likely to do well? And how do you see that target of 25% share getting achieved?

Kumar Subbiah: Yes, 25% is a saliency within CEAT, which is currently 19%. So as I have mentioned, the key focus is on agriculture radials, passenger radials and truck bus radials. So strong focus on passenger radial and agriculture radial, truck bus radial is coming up as maybe we can say 2.5 categories and geographies are Europe, U.S. and Latin America.

So these are the 3 geographies that we'll focus on. Out of which U.S., we have agriculture radial, which is scaling up. Passenger radial and truck bus radial are yet to be launched. In all other geographies, we have created the market access by we have distribution network, product development is done. Product development is also done and tested for U.S. So this will be a focused market. And Middle East is also shaping up well, though I didn't mention about it earlier, but it may be the fourth area, but the first 3 are the focus areas.

Raghunandhan N. L.: Got it, sir. And H2 of FY '24 exports had grown in double digits, I think, 15% plus. So how would you see the double-digit growth getting sustained. Do you see any...

Arnab Banerjee: So the international business is always fraught with higher risk because of various geopolitical events over which we don't have any control. So should -- if there are no major aberrations, then we see headroom for growth being a value brand, which is our products are very well accepted and at the right price at which we make good money. It is EBITDA accretive for us. We see a lot of headroom for growth in all these 3 geographies, barring some unforeseen risks, which we have not accounted for. But those risks are always there.

Raghunandhan N. L.: Got it, sir. And Kumar, sir, can you quantify that you indicated 300% increase in freight cost on the Europe growth like would it be a 30-40 basis point kind of a hit this quarter? Any quantification there? What was the impact this quarter? And also thoughts on pass-through of this higher freight costs with customers have customers responded positively, have you got acceptance for pass-through?

Kumar Subbiah: Okay. See, normally, there are 2 ways in which you price your product. One is FOB and another CIF. Okay. Whenever we have FOB contract, buyer takes the impact of freight as and when it happens. In case of CIF contract where we have given a price, including price and in the intervening period, so long as the price is applicable we may have to break up that freight. Okay.

But when you renegotiate the prices at the next cycle, either you address the freight rates, and in the same price or are there some kind of an arrangement where the actual freight is appropriately adjusted in the pricing. So largely we pass through, okay. And the impact of that has already been taken in the previous quarter. We don't expect that to have any incremental impact on us in the coming quarters.

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

Arnab Banerjee: Thank you very much for attending the conference call of this year. We have had a good year, and we hope to see you again in 3 months' time. Thank you very much.

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