



“CEAT Limited

Q2 FY '25 Results Conference Call”

October 18, 2024



**MANAGEMENT:** **MR. ARNAB BANERJEE – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – CEAT LIMITED  
MR. KUMAR SUBBIAH – CHIEF FINANCIAL OFFICER –  
CEAT LIMITED**

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

**Moderator:**

Ladies and gentlemen, good day, and welcome to the CEAT Limited Q2 FY '25 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Mitul Shah:**

Thanks, Del. Good afternoon, everyone. On behalf of DAM Capital, I welcome you to the Q2 FY '25 Results Conference Call of CEAT Limited. From the management side, we have Mr. Arnab Banerjee, Managing Director and CEO; and Mr. Kumar Subbiah, Chief Financial Officer. I would now hand over the call to Mr. Arnab Banerjee for his opening remarks. Over to you, sir.

**Arnab Banerjee:**

Thank you. Good afternoon, and welcome to CEAT's Quarter 2 FY '25 Earnings Call. I'll be taking you through the business updates for the quarter and shall hand over to Kumar for his remarks and financial performance; post that, we will be opening up for Q&A.

The Indian tyre market is a dynamic and rapidly growing sector, fuelled by countries expanding automotive industry and economic development. We are quite positive on domestic demand overall. Commercial vehicle segment tyres are growing in mid-single digits in replacement, while it's degrowing in OE. Passenger car tyres demand is flat in OE and growing in low single digits in replacement. 2-wheeler tyres are growing in double-digit in OEMs and also high single digit in replacement aided by recovery of demand in rural markets, post a very good monsoon.

Investment in infrastructure is leading to creation of opportunities when vehicles are traveling faster and covering longer distances per day. This leads to more trips per month. This leads to faster tyre usage, and that's good for the replacement market. Also, consumers in Passenger segment are exploring more on-road and off-road, leading to more tyre usage.

We are delighted to announce the inauguration of our truck-bus radial production line at Chennai. This marks a significant milestone in our journey towards global expansion as this plant is expected to be an export centric hub focusing on delivering high-performance tyres to international markets such as Europe and the US.

Coming to performance of Q2, our turnover was highest ever at around INR3,300 crores with highest ever volume achievement also. On the revenue front, we grew by 8.4% Y-o-Y stand-alone and 6.4% was the volume growth. Our Q-on-Q growth was 4.1% by value and about 1.2% by volume.

Our EBITDA for quarter 2 stood at 11.1% with a gross margin at 37.5%. We continue to face the Red Sea shipping situation, which has extended well beyond the region, not only impacting our transit time, but also creating significant disruptions in the flow of freight around the world, especially from South Asia to Europe.

Despite the headwinds, our international business grew by strong double digits on Y-o-Y basis in quarter 2. We witnessed growth from each geography and more so from LATAM along with Europe. However, elevated freight rates did eat into our margins. As we speak, freight rates are cooling down but still higher compared to pre-crisis stage.

Our order base is in excess of a month and we are looking forward to in quarter 3 and quarter 4 with a lot of positivity for international business. Replacement volumes also grew in strong double digit led by healthy double-digit growth in commercial vehicle tyres, in passenger tyres and close to double-digit growth in 2-wheeler tyres as well.

Our brand imagery is working well with strategic focus on premium categories, positioning us to capture new audiences and enhance our overall premium appeal. Truck and bus 3-wheelers and scooters continue to have a very, very strong growth in the replacement segment and this is leading to good capacity utilization in both 2-wheelers and 4-wheelers factories. OEM was the only soft spot in quarter 2, where we have degrown in single digit, primarily, a, due to top situation in vehicle growth in both 3-wheel category and 4-wheeler category and also a temporary loss of share of business for CEAT as we are exiting some vehicles and we are entering some new vehicles which are coming along at a slightly slower pace.

As far as margins are concerned, the raw material prices are escalated at a very steep rate of 6% Q2 over Q1. It's very difficult to pass on the entire increase through finished goods in such a short span of time. In OEMs, we always get the index benefit after a lag of one quarter.

In quarter 2, we got an index benefit of around 3%. And in quarter 3, we shall get an index benefit of around 4%, but it will come with a lag of 1 quarter. By the end of quarter 2, actually, on 1st of October, we further took a price increase on truck-bus radial close to 2% and about 3.5% on passenger car radial also.

As we speak, we are contemplating price hikes in truck-bus bias and other commercial categories in October 3rd week. As the price increase has been inadequate, as compared to raw material hike in Q1 and Q2 cumulative, we may have to take further hikes in November and December, which we shall do. Capacity utilization overall has been 80%, but close to 100% in truck-bus radial. In 2-wheeler plant in Nagpur, it is inching up to 90%, but we have capacity at our outsourcing partner at Hyderabad.

Coming to some future trends. Electric vehicles, 2-wheeler space in scooters, particularly now it is in excess of 20%. With new 20% of new vehicles being launched in electric, we have a 30% share of business there, and it could go up further with some new approvals coming on. In 4-wheeler, more than 2.5% is electric, another 2.5% is hybrid. In pure electric, we have share of business of 25% in passenger as well, and we are investing in technology as well as working on close relationships with OEMs to maintain or increase the share.

As far as the international business is concerned, this has been a core focus area for CEAT. Our top three clusters are now EU, Middle East and LATAM comprising of almost two third of international business. In Specialty segment, which is off-highway segment, I'm glad to share that we could launch about 46 plus new SKUs in quarter 2.

This is margin-accretive for us and some new OEM approvals are coming in, for example, Massey Ferguson in France, CFI in USA. and so on. For the non-specialty business also, we have been able to launch a significant number of SKUs in truck bus radial and passengers, and we have a strong pipeline in half 2, quarter 3 and quarter 4 as well.

Sri Lanka has been doing pretty well. The macroeconomic situation has improved quite a lot. Economic stability is returning. A new President is in place with popular support. Our company in Sri Lanka has registered 31% volume growth with 19.5% EBITDA in quarter 2. As far as premiumization is concerned, our campaign with the crafted for Curious theme is gaining traction on both digital and television media. We have partnered with KBC as a special partner, and we have launched the second version of our campaign through KBC.

We have mounted an Africa to Arabia expedition, which is going on CEAT wheels, CEAT CrossDrive wheels. This not only establishes the credibility of the tyre but creates content for further digital amplification. In quarter 2, we had the premium CEAT international cricket awards which was graced by celebrities such as Rahul Dravid, Rohit Sharma and also Jayesh Shah, and this was elaborately covered in media. This is 100 years of CEAT's existence, and we are celebrating in very many ways internally as well as externally.

Our Beyond the Horizon campaign on digital media has about 50 films aiming at a cumulative 100 million viewership, 15 of them are already mounted and we already have 45 million viewership. This campaign shall continue till the end of December. We have taken our Enduro Park campaign right up to 3,500 meters above sea level in Ladakh. We have also tied up as a tyre partner with Bayer Leverkusen who were the champions in Bundesliga Germany, and we continue to be associated with Torino FC who are part of Serie A in Italy.

On the digital front, we continue to engage closely with our channel partner through digital mode. We continue to enhance our efficiency in manufacturing process and we are investing in collaboration across the supply chain through a new project which has important 3 to 4 models, which will established one source of truth and enhance collaboration across the supply chain from procurement to sales.

The industry 4.0 concepts are helping us improve the efficiency of energy users, improve manpower productivity and reduce consumption of resources such as water. The organic traffic on our website grew by 21% and traffic from premium SUV users increased by 87%.

Brand conversation volume moved up by 16% with a 129% increase in average interactions per post Y-o-Y. On capex, I think details will be provided by Kumar. Our annual guideline stays around INR1,000 crores to INR1,050 crores. As mentioned, we have successfully commissioned our TBR plants in Chennai and other projects are progressing on schedule.

Sustainability. We continue to reduce our carbon footprint ton CO2 emissions per MT of production was lower by 3% Y-o-Y, 37% of our plant power requirement is tied up through renewable sources, and we will endeavour to increase this contribution further. We have strengthened our commitment to fight global warming by joining the science-based target initiative.

Looking forward, I think we are looking at accelerated growth in second half with double-digit growth in replacement, double-digit growth in international business and a bounce back from the OEMs because of clear visibility of vehicles that will be launched on CEAT. The freight rate moderation will also happen. Container availability for dispatches is expected to improve, and our GTM to US is expected to scale up especially for truck-bus radial.

On raw materials, we expect the inflationary trend to continue, but at a lower rate of 1.5% to 2% Q3 on Q2, and therefore, this will create some space for us to enhance our margin probably. In Q4, with fresh crop coming in, we may see slightly more flattening of raw material situation.

With this, I will now hand over to Kumar for further elaboration.

**Kumar Subbiah:**

Thank you, Arnab. Good afternoon, ladies and gentlemen, and thank you for joining our Q2 FY '25 earnings call. I'll share some financial additional data points with you all, post which we can enter the Q&A session. Overall, our consolidated net revenue for the quarter stood at INR3,334.5 crores, a year-on-year growth of 8.2% and quarter-on-quarter growth of 4.1%, driven by mix of both volume and price growth.

While our OEM growth was muted, replacement and export segments grew strongly in double digits and that we are happy to share with you that our consolidated revenue of INR3,304 crores is the highest that we have achieved ever.

Coming to our operating margin, our consolidated EBITDA margin for the quarter stood at, in absolute amount, INR368 crores, translating to 11.1% of our turnover. It is a contraction of about 400 basis points year-on-year and about 94 basis points quarter-on-quarter, primarily on account of increase in the raw material prices.

While our raw material basket increased as compared to previous quarter, in line with our earlier estimate that we had indicated in the previous earnings call, we were a little surprised with the quantum of increase that we witnessed in the natural rubber prices, particularly within India.

While the crude has largely remained stable in the range of \$75-plus or minus \$5, natural rubber prices shot up to INR250 per kg in the local market during the quarter, which was at a premium of about INR50 per kg over the international prices at a particular point in time.

In the last two to three weeks, the local natural rubber prices have come down to around import parity level, while international prices have eased up by about \$200. Currently, local natural rubber prices are in the range of around INR200 per kg.

The rupee has remained stable in the range of about INR83 to INR84 to a \$1 in the similar time frame, and therefore, the impact on raw material and other expenses on account of currency has remained stable.

Considering these factors, we'll continue to keep a close watch on RM situation, as Arnab mentioned, and see how it evolves over new few quarters, and we expect them to continue to move up marginally in quarter 3 to the extent of 1.5% to 2% over quarter 2 after that could stabilize.

Coming to debt, capital expenditure and working capital, we spent approximately about INR175 crores on capital expenditure during the quarter. And overall full year basis, we spent about INR430 crores, which is largely in line with the full year capital expenditure estimate that has been shared by Arnab just now.

While working capital remained negative, during the quarter, it moved up by about INR290 crores quarter-on-quarter, largely due to higher inventory level, particularly natural rubber, which we expect it to normalize over the next 2 to 3 months.

We generated healthy operating cash flow and the increase in raw material inventory leading to increase in working capital led to increase in our consolidated debt by about INR238 crores. And we also would like to bring it to your attention that our dividend payment of about INR121 crores happened during the quarter that also had some impact on cash flow for the quarter.

We expect overall working capital to normalize progressively in the next 2 to 3 months as we have already taken steps to bring down our raw material inventory cover, particularly in natural rubber. And hopefully, in the next 3 months, we would be at the normal level.

Our debt EBITDA on a consolidated basis as of 30th September stood at a comfortable level of 1.19 and debt equity at 0.45. With respect to operating expenses, our employee cost was higher by about 12% quarter-on-quarter on account of annual increments, incentives and additional salary expenses incurred on account of higher level of productivity, including a new plant, a Chennai to produce truck and bus radial tyres.

Consequent to increase in the raw material prices, we kept a tight control on other expenses, particularly discretionary costs and advertisement costs, leading to a drop in overall other expenses to the tune of about INR24 crores quarter-on-quarter.

So, the above step helped in terms of partially helping in mitigating the impact of drop in gross margin. And our operating gross margin, as I mentioned, stood at INR366 crores translating to 11.1% on turnover.

Our consolidated profit after tax stood at INR121 crores compared to about INR154 crores in quarter 1 and INR207 crores in the previous year same quarter, and the drop was primarily due to increase in the raw material costs, as I mentioned earlier.

Coming to Sri Lankan business, the Sri Lankan business witnessed a strong volume as well as profitable growth during the quarter, arising out of economy normalizing and increase in the arrival of tourists in Sri Lanka.

We are also happy to share with you during the quarter, credit rating agency India Rating carried out their annual surveillance and affirmed rating of AA for long term and A1+ for short term. And in case of long term, they have changed the outlook from neutral to positive during the annual exercise.

Based on the approval by shareholders in the Annual General Meeting held towards the end of August, we distributed a dividend of INR121 crores, amounting to about 300% of our share capital.

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

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Raghu Nandhan from Nuvama Wealth Management. Please go ahead.

**Raghu Nandhan:** Festive greetings. Sir, firstly, in terms of the price hikes cumulatively taken so far, how much would be the quantum? And is there any discounting whether we are able to retain, how is the retention?

**Arnab Banerjee:** So the raw material price hike has been about 4% to 5% Q1 over Q4, about 6% Q2 over Q1. As I mentioned, the cumulative price hike has been inadequate. Q2, the overall price hike was higher in commercial category to the extent of around 1% to 2%, about 1.5% in passenger; in other commercial, about 2-odd percent. So, you can see, obviously, it was inadequate.

In quarter 1 also, there was a gap. So we are, therefore, looking at a very steep increase in quarter 3. On October 1, there was a price hike of around 1.5% on commercial, 3.5% of passenger. In the third week of October, there will be further hikes in truck-bus buyers as well as other commercial vehicle and we will relook at 2-wheeler category also in November or December, maybe in November itself.

So the evidence of that is in the drop in gross margin, as you can see, which has percolated to a lesser extent in EBITDA, the drop in gross margin quarter-on-quarter has been around 1.5%.

**Raghu Nandhan:** So, what would be the under recoveries as of now? Would it still be to the tune of 2%, 3%?

**Arnab Banerjee:** I would say around 1.5%- 2% definitely.

**Raghu Nandhan:** Sir, it was at the beginning of Q3, you're taking this 1.5% TBR hike, 3.5% PCR and again TBB and other commercial vehicle you're going to take a price hike. And Q-o-Q, Q2 to Q3 the RM increase is 1.5%, so is it fair to assume that Q2 gross margin was the trough and Q3 onwards you should witness the expansion?

**Arnab Banerjee:** We have to see because the international natural rubber price is going up as we speak, though the domestic natural rubber price has come down. The petroleum-based raw material prices have not yet sobered down. So we'll have to see how it bears so we are projecting at 1.5% to 2% raw material hike. And it will also depend on our ability to take further hikes in the commercial as well as in the 2-wheeler segment.

**Raghu Nandhan:** Understood, sir. And my second question was on the demand side. 6.4% was the volume growth Y-o-Y. How much, sir, was the fall in OEM and growth in replacement and exports, if you can share the numbers?

**Arnab Banerjee:** So Y-o-Y truck-bus bias is the growing segment, right. Truck-bus radial, we are growing in very healthy double digit, which is what the future is. So overall growth in truck-bus is kind of strong single digit because of the degrowth in truck-bus bias.

But what you have to note is that radials is where the growth is. Then passenger, we are growing very strong in double digit, very strong double-digit passenger car tyres. Two-wheeler is a little less, but very close to double digit as well, but there are some sundry areas, for example, off-highway, off-highway agriculture, specialty tractors, those are growing in low single digits. So overall, it works out to around 6.5%.

**Raghu Nandhan:** If you break it down to OEM replacement, sir?

**Arnab Banerjee:** So OEM will be, we said we have Y-o-Y, it's about 3-odd percent, 3%- 4% down, right? And replacement and exports are in double-digit growth.

**Raghu Nandhan:** And within replacement, if you can give a trend for TBR, PCR and 2-wheelers?

**Arnab Banerjee:** TBR, PCR, 2-wheelers in replacement?

**Raghu Nandhan:** Yes, sir.

**Arnab Banerjee:** Okay. So TBR you asked Y-on-Y?

**Raghu Nandhan:** Y-on-Y, sir.

**Arnab Banerjee:** Yes. So, replacement Y-o-Y, the growth will be pretty strong in very high double-digit, TBR. PCR, the growth will be more or less, yes, again in double-digit, PCR. And 2-wheeler also, we're growing strong because backed by a strong rural demand. So the 3 main categories will be growing very healthily. We have downtrend in specialty tractor, which depends on the season, LCVs and those kind of things, truck-bus bias.

**Raghu Nandhan:** Understood, sir. And just a related question here. In terms of TBR, given that you have seen high double-digit growth and also capacity expansion, how would you see the market share trending here?

**Arnab Banerjee:** So we have low market. If you're talking of replacement market, we have low market share. We are in high single digits. We have already gained about 1% to 1.5% share. We expect to keep gaining share because our base is very small. So that is not an issue.

**Moderator:** The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

**Siddhartha Bera:** Sir, on the replacement question a bit more. If we look at TBR, so we are gaining share. I mean, this is largely driven by – what are the drivers here which is driving our market share gain? Is it pricing or is it network, if you can just elaborate a bit? And in PCR also is this something we are gaining share because the industry is growing in double digits. So just some more thoughts there.

**Arnab Banerjee:** Replacement, we are gaining share because we have a superior product, and we had been fitting these products into OEMs, which have now been seen by the customer, experienced by the



customer. And some of the customers are insisting on the OEMs to supply fitted with CEAT tyres. So, it is a product, and we are gaining share by winning in some markets, not across the country. We are focusing on a few markets where these products will be accepted well and that is how we are gaining share.

So excellent products, good channel in some areas and OE fitments, that is the summary of TBR, sorry, that was TBR. And in PCR, we have got some fantastic new line of products like cross-drive, which is gaining traction across the country. It is not a product for the OEMs. It is a replacement-oriented product for 80% on and 20% off kind of application.

We have a top-of-the-line sport-drive product, which is for the Mercs and the BMWs, we have 95% coverage there. So new products and the campaign is doing well, which is crafted for the curious, the 100-year campaign is doing well, which will intensify over the next for 4-6 quarters. So new products, good products. OEM fitments is low. This will come in and contribute to replacement sales maybe 3 to 4 quarters down the line also and good channel.

**Siddhartha Bera:**

Got it. In terms of the mix, sir, if you see the first half mix, export mix has been around that 19% only in last year and even in this year. So if you look at the growth, then it should be also similar to our overall growth of about 8%. So how are we sort of saying that export is growing in strong double digits? I mean, they're not really visible in the mix.

**Arnab Banerjee:**

Yes, the mix is clear. Double-digit growth in replacement and export and negative growth in OEM. So that's how the overall mix export is around 19%, you're right. And we would like this to grow to at least 20%, 21% as soon as possible. We have the order base, but we have been held back because of certain geopolitical reason in the second quarter, as I mentioned, the containers were not available.

We couldn't ship out orders that were already there. We could manufacture, but we couldn't ship out. And these roadblocks are coming down gradually. So, we should look forward to enhancing export growth disproportionately over domestic growth in future.

**Siddhartha Bera:**

Got it. So overall, to sum it up, given strong replacement growth, the healthy export growth, should we expect a pickup in the overall volume growth trends, which we are doing in the current quarter, in the coming quarters, will that be a fair assessment?

**Arnab Banerjee:**

Second half volume growth, we are looking at positively. That's a fair assessment.

**Siddhartha Bera:**

Understood, sir. Sir, lastly, on the commodity. So if you look at the domestic rubber prices, they have come down a bit, quite a bit actually. So don't we expect any benefit out of that to come in the current quarter? I mean, why are we saying 1.5% to 2% commodity cost inflation in the quarter?

**Kumar Subbiah:**

It is mainly because the material inventory that we have, we have to consume. And while domestic prices have come down from INR250, it went up to a peak of INR250 per kg, now it's hovering around INR198 to INR200, it is that level. International prices have moved up by \$250, okay. So overall average, ours is two third of rubber is import and one third is local. So, from

that standpoint, average natural rubber prices in terms of consumption cost in quarter 3 is likely to be higher than quarter 2.

**Moderator:** The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

**Jinesh Gandhi:** Just some clarification on the Indonesia subsidiary, which we are proposing. What is that for?

**Kumar Subbiah:** So, see, this is part of our international business approach. And this is work in progress. We are setting up an entity or intend to setup an entity in Indonesia to explore servicing the market from local, okay. So it's more a pilot work in progress. We have got approval from the Board for us to move forward to explore any opportunities there.

**Jinesh Gandhi:** So, we will be putting up a local plant there, a manufacturing capacity there or it could be just the sales office?

**Kumar Subbiah:** It's no manufacturing. It is more an entity that will get created so that supply to the local market can be facilitated.

**Jinesh Gandhi:** Got it. Got it. And second question pertains to the competitive landscape in the replacement markets. So, are you seeing a similar price hikes by your peers to the level which we have taken?

**Arnab Banerjee:** It is different for different categories. But yes, more or less, we see the prices going up in most of the categories. I would say, barring maybe 2-wheelers, where the price hike is a little muted, but across passenger, across truck-bus, across other commercial vehicles, farm, I think the price hikes are happening at different times. The quantum may be different, but it's happening.

**Jinesh Gandhi:** Okay. That's great to know. And third question pertains to our capacity addition plan going forward. So TBR is now up and running and from what I understand it is currently only the OTR side of capex which is pending. But anything beyond that which we are looking now in the growth which we are looking at?

**Kumar Subbiah:** In terms of capex, TBR, it is upstream and downstream we are spending that -- we would be spending that progressively. And in case of specialty farm radial tyre expansion capex, intensity has not yet fully started. So that will be something that we will end up spending some capex. Even in Chennai passenger car radial also, we are not fully spent, okay. So downstream, we are spending based on the demand. So, these three would be the critical ones that we'll continue to spend even going into the next year.

**Jinesh Gandhi:** And lastly on...

**Moderator:** Sorry to interrupt Mr. Jinesh, please rejoin the queue for further questions. Thank you. The next question is from the line of Amar Kant Gaur from Axis Capital. Please go ahead.

**Amar Kant Gaur:** I had two questions and then 1 housekeeping question. So first one was, now that our TBR plant has started and you were also indicating that this will be primarily utilized for our exports to U.S., what kind of incremental growth can we see from this plant or this business alone and in the context of overall outlook or growth that you expect to be going good for the second half and maybe going into the next year as well?

**Kumar Subbiah:** So, when I said international, it is not just US. It is also Latin America and Europe. So the growth in these markets -- US, of course, are just doing the GTM right now, but the growth in Europe and Latin America to some extent was held back because we had run out of capacity.

We are servicing the domestic market, and we'll continue to do that in priority. Now these steps will be open, and margins are good. And the growth in TBR could accelerate if we are able to take up this opportunity utilizing the capacity in Chennai. The capacity is 45,000 tyres per month. So, we expect to reach this level by Q1, Q2 of next year, and we expect to utilize that capacity pretty fast.

**Amar Kant Gaur:** Okay. That's good to know. The other question that I had was you have -- I mean I should congratulate you that you've seen that you have been quite at the forefront of taking the price hikes over the last couple of quarters, probably ahead of your peers. And you had also indicated the kind of pricing premium or discounts that you guys have over your peers across segments.

Now that you have taken more price hikes probably than your peers that differential would also have come down. And so how much of a headroom do you see because of that or your pricing strategy would remain independent even more so now?

**Arnab Banerjee:** No, the price increase that we have taken is still inadequate. We feel we need to take further price hikes. As I mentioned on October 1, we have taken some -- in the third week, we are taking some and some other basis we need to cover. So we are not done with the price increase, we would like to explore more opportunities in the month of November. And if you are not done, maybe in December also.

**Amar Kant Gaur:** No, I'm asking this from a perspective of, like from a competitive perspective, right? So would you say that regardless of what the competition does, you would continue with your pricing strategy? Or there is probably a cap to that as well?

**Arnab Banerjee:** No, there is -- as I have been mentioning, there is increasing independence, but it's not 100%. So in commercial segment, it's very difficult to become completely independent. The highest degree of independence could probably be in 4-wheeler segment and less so in commercial and 2-wheelers.

**Amar Kant Gaur:** Understood. Understood. And 1 housekeeping question that I had was that typically, we see a spike in your ASPs, regardless of what the price hikes have been taken typically in Q2. Is there a one-off there that you could probably qualify?

**Arnab Banerjee:** Advertising, you mean?

**Amar Kant Gaur:** No. In the ASPs.

**Arnab Banerjee:** Yes, can you repeat the question?

**Amar Kant Gaur:** Yeah, so what I was asking was, if you look at from Q1 to Q2, the ASPs have gone up by about 4%, while the price hikes, the impact of price hikes could not be that high, right? Maybe 1%-2%. So, what is accounting for that additional 2% increase in the ASP?

**Arnab Banerjee:** I think ASP means, are you referring to revenue?

**Amar Kant Gaur:** Yes.

**Arnab Banerjee:** Okay. So, revenue moved up by 4%. Are you asking whether it is on account of price or is it on account of one-off? Is that what you are asking?

**Amar Kant Gaur:** Yes.

**Kumar Subbiah:** Okay. So, revenue moved up by 4%. Are you asking whether it is on account of price or is it on account of one-off? Is that what you're asking?

**Amar Gaur:** Yes.

**Kumar Subbiah:** Okay. Now there's no one-off in the revenue of quarter 2. Quarter 2 has two third of the revenue growth on account of volume and one third of the growth is on account of price. So the price impact is small, one third of that 4%, you say quarter-on-quarter.

**Amar Gaur:** Okay. Maybe I'll take that offline, probably.

**Moderator:** The next question is from the line of Basudeb Banerjee from CLSA. Please go ahead.

**Basudeb Banerjee:** Couple of questions. See, overall replacement volume growth, I missed up initially what you have said, how much was the commercial vehicle replacement?

**Arnab Banerjee:** Commercial vehicle replacement, the bias, we have had slight degrowth. And we had a very strong growth -- very strong highly double-digit growth in truck-bus radial, leading to market share gain in replacement, but we are still in single-digit market share.

**Basudeb Banerjee:** And within your commercial vehicle replacement portfolio, what percentage is radial as of now?

**Arnab Banerjee:** In truck-bus, it is roughly 50-50.

**Basudeb Banerjee:** For you.

**Arnab Banerjee:** Truck-bus radial is 50% of overall truck tyre sales in replacement.

**Basudeb Banerjee:** Surely. So, if truck-bus radial is growing at double digit and slight declines overall truck-bus replacement tyre seen positive growth only.

**Arnab Banerjee:** Overall truck-bus is also growing in double digits despite negative growth in truck-bus bias.

**Basudeb Banerjee:** Okay. And second thing, like lot of negative commentary with respect to highway tyre exports out of India to the target market. So how are you seeing offtake in your target market and production from Badlapur ramping up? So, any comments on that?

**Arnab Banerjee:** Yes. It's at Ambernath. So, we have some headwinds in Agri radials, which I've been mentioning. I think now we have started receiving some initial commitments from OEMs. The volumes have

been flat. We have been gaining consistently in aftermarket in Europe, U.S. and Latin America, but the drop in OEMs have been absolutely precipitous.

In a sense, it could be 50%, 60% drop in OEM volumes over the last few quarters. Now, a few OEMs are enhancing their approvals and coming back to some kind of offtake, though at a much lower level. And we'll continue to focus, therefore, on the replacement market. But overall, I think it has been flattish for some quarters.

**Basudeb Banerjee:** And any reason you could assume for such a huge decline, is it purely macro or inventory build-up or how do you see that?

**Arnab Banerjee:** A bit of both because there is inventory buildup and the demand has fallen off. If you talk to farmers there, for example, in the U.S. the farmers are not only not buying new equipment like harvester or other farming equipment. They're also not buying tyres and using the tyres for longer duration and usage. So there is a slowdown in offtake. There is a huge inventory, which the OEMs are correcting. The replacement distributors are correcting. So it was a double whammy, which is why it was flat.

**Basudeb Banerjee:** But do you see that bottoming out currently?

**Arnab Banerjee:** I think the inventory position is easing out. The demand will take some more time to come back.

**Moderator:** The next question is from the line of Ankur Poddar from Svan Investments. Please go ahead.

**Vishal:** Vishal here. Sir, I have one question regarding the exports. We have seen exports steady growth of almost 8% to 10% and the share of export has been around 19%, 20% last 3 years-or-so. And you said that you have a visibility of increasing it to 20%, 21% in the near term. Can you share some thoughts and some light and how will you be able to scale up and what is your strategy on that regard?

**Arnab Banerjee:** Yes. So based on the following pillars: One is the truck-bus radial facility has come on stream, which will help us in expediting the GTM to US and expand in LatAm and EU. That's one. The second one is we have been expanding the range in passenger car tyres and expanding our downstream throughput capability in Chennai. That will come in handy for exports.

And the third one is we expect the demand to revive gradually in Q3-Q4 for agriculture radial, which will come out of Ambernath where there is no capacity issue as of now. So these 3 we expect to fire. And if they do so, then the export saliency in the overall business will improve from 19%.

**Vishal:** Great, sir. Sir, with these new capacities coming in, what kind of SKUs do we intend to increase from this? How many currently we have? And how do we intend to increase the SKUs in next maybe couple of years?

**Arnab Banerjee:** So, couple of years is a long time. But generally, we have been going at about 40-plus SKUs for agriculture radials and OTRs, which I think will continue. We have about 1,000-odd SKUs, and

there is scope to further leverage the range that is there at the new evolving market where the margins are usually good.

So we have started late, so we were first catching up. I think 1,000 is a good place to start looking at the evolving areas. So 40-plus SKUs Agri radial will continue per quarter. And in passenger radial, I can tell you, I can share some numbers maybe in the first -- next 2, 3 quarters, we have a plan for at least about 30 to 40 SKUs overall to be launched. This will not come at that prolific rate as Agri radial. And truck-bus radial will be slightly more sedate at maybe 8 to 10 SKUs for the next 2, 3 quarters.

**Ankur Poddar:** Great, sir. And sir, do we plan to scale up the replacement or we are as we have got some new OEM in this quarter, we are also targeting aggressively to get into OEMs in the export market? And what is the plan going ahead, if you can share?

**Arnab Banerjee:** So for agriculture radial, it is both OEM and replacement in export market. And that's important because the volumes are very big in OEM. And in OEM, we classify them into OE1 and OE2, which is the largest OEM, which are global OEMs like CNH, etc, and the local OEMs, which are there in 1 country or a couple of countries.

So we'll look at both, and the margin difference is not much in export market for Agri radial for OEM and replacement. For passenger, we are just knocking the doors of OEMs, and it will be a long haul, maybe 2, 3, 4 years from now when we'll get a breakthrough. So, 100% is going to be a replacement market and same in TBRs.

**Ankur Poddar:** Great, sir. Sir, my last question, a small bookkeeping question regarding the debt levels. We see the debt levels have been elevated this quarter because of working capital requirements. So by the year-end, do you see the debt level coming down as the same scenario we have seen in FY '24 also. Where H1, we saw that debt levels were elevated, but gradually, it got reduced by the end of the year. So do we see similar kind of scenario here also or are you comfortable with keeping the debt levels at similar levels?

**Kumar Subbiah:** No, I think the debt levels, as Arnab mentioned in the beginning, our capex for the full year is in the range of INR1,000 crores to INR1,050 crores and in the first 6 months of the current year, we have spent about 450. So, we'll spend a little more in capex in the second half of the year.

First half also had this dividend of about INR120 crores that we paid in the month of September, okay? It's more specific to last quarter. And third, on the working capital side, why it went up was primarily because natural rubber inventory that we had as of 30th September was about significantly higher than the previous quarters. That was mainly because the transit time from Southeast Asia to India came down from 60- 65 days to around 20 days.

So, what we had planned over 2 or 3 months, many of them consignments reached earlier than our original plan. So, these three things have contributed to increase in our debt level, okay. So, the comparison of current year versus last year, last year, our capex was closer to INR850 crores. This year, we'll be spending closer to INR1,000 crores to INR1,050 crores, so that needs to be funded.

Second, working capital, our intention is to normalize it between the current quarter and next quarter, so that there is no incremental impact on our account working capital the absolute working number level. So, debt level, we don't expect it to come down by end of the year, okay?

However, we are very comfortable at current level of leverage, which is about 1.2x the EBITDA is our current debt level. So, we are okay in the current range, but composition of the debt level will change with normalization of working capital and with a higher level of capex in the second half of the year.

**Moderator:** The next question is from the line of Jaimin Desai from Emkay Global. Please go ahead.

**Jaimin Desai:** Sir, you indicated the improvement expected in OEM category in the second half. This would be more of first half versus second half or the growth expected on Y-o-Y basis as well? And if you can provide some colour on how will be the OEM category growth across segments with commercial, passenger and 2-wheelers?

**Management:** There's too much noise there on the -- line I think.

**Moderator:** I think there's too much background noise from your end.

**Jaimin Desai:** Sorry, is this better?

**Moderator:** Yes, sir.

**Jaimin Desai:** Sir, you indicated good growth expected in the OEM category in the second half. Can you provide some colour based on segments, commercial, passenger and 2-wheelers? And if this growth would be more of second half versus first half or there would be growth Y-o-Y level as well?

**Arnab Banerjee:** Growth will be definitely second half versus first half because we will be able to deliver more truck-bus radial because of enhanced capacity. Number two, we have visibility of a lot of models that are coming up for either launch or we are going in a second or third source. So we have complete visibility in 4-wheeler. So that will come for enhanced fitment in the OEM and not because of OEM growth or anything else.

Our share will go up in those cases, which is very much visible. It can be delayed by a month here and so, but it will happen. And 2-wheeler is purely increasing share of business, old and new SKUs put together.

**Jaimin Desai:** Understood. Sir, you also touched upon the replacement cycles now shortening across commercial as well as passenger categories. Can you provide some insight on how they would have been, let's say, 5 years back in terms of number of years or a number of months and where they are now?

**Arnab Banerjee:** So, we do once a year long-term demand planning of 5 years where we see a slight reduction of, let's say, sweeping reduction of 1.5 to 2 months to 3 months of the life of the tyre because of enhanced usage. In some segments, it's not across segments.

It is in some segments, which is, let's say, the larger vehicles, which travel much out of the city those kinds of segments. In truck tyre, again, those who travel long distances, not the ones who are traveling intracity or closer distances, start and stop traffic, there it is a different scenario, right? So, it is not on the -- you can't map it to the entire market.

**Moderator:** Next question is from the line of Mitul Shah from DAM Capital Advisors. Please go ahead.

**Mitul Shah:** Sir, I have two questions. First one is on this pricing discipline, which we have seen in past 1, 1.5 years. So, this question is to Arnab, sir. Sir, based on your past experience, what level of industry volume growth or in terms of utilization, have you seen pricing discipline or at what level of a decline or lower utilization pricing war starts based on your past experience?

**Arnab Banerjee:** I think it's not linked to capacity utilization. It is linked to each company's individual stance of what it wants to do with a lower price. So, if one thinks that by holding price or lowering price one can get market share, that's one some of the players may try. It may succeed, it may not succeed, but it may try.

Some other players, I'm talking about industry in general without naming any player. And some of the players may try to invest more in different kind of tyres, premium tyres, different kind of channel and investing in marketing and technology, they want to take the price hike.

There are premium players also in the market, right, in the multinational players, which have a different pricing strategy. So, we have a wide spectrum of pricing. I think the old notion of just linking to capacity utilization doesn't really hold right now because there are examples of low-capacity utilization and higher pricing in the market also.

**Mitul Shah:** Okay. Sir, second question, again, on the pricing side only is raw material has started going down. Natural rubber almost down by more than 20% from peak, crude is also down, steel prices. So roughly the entire RM basket is down by more than 10% from peak levels.

Of course, from the weighted average price, it may not be significant lower, but going forward in Q4, when we are indicating possible raw material decline, so what would be the scenario in terms of passing on price to the end customer? Do you think there is a possibility of retaining profitability by the industry? I'm not talking only about you, but considering the current environment, and would there be a lag effect in passing on this price benefit similar to the price hike lag effect, so industry can return better margins for 1 or 2 quarters?

**Arnab Banerjee:** See, I can answer that based on past data. I cannot predict the future. So, if you look at a couple of cycles in the past 5 to 7 years or even back to 2015-'16, I can talk of CEAT, our margins have been holding steady at around 40%, 41%, even 42% gross margin for a significant number of quarters. So, when the raw material price has gone down, the margin has gone back up to 40%-plus.

So, there is evidence CEAT has been able to hold prices to enable such kind of gross margin. Now what will happen in the future, I don't know, but there is evidence that this happens.



- Moderator:** The last two questions are from the line of Raghu Nandhan and Jinesh Gandhi. The next question is from the line of Raghu Nandhan from Nuvama Wealth Management. Please go ahead.
- Raghu Nandhan:** Sir, you have exposure to Europe market in exports. And with regards to the upcoming EUDR regulation, how do you think there will be an impact both in terms of the pricing as well as whether there will be any demand impact in terms of prebuying?
- Arnab Banerjee:** Yes. So EUDR itself, I think there is a discussion in the European Parliament towards deferring it by a year. You might have heard about that. But we have prepared ourselves completely to enable business continuity under EUDR, both in terms of procuring natural rubber from domestic markets as well as from import markets.
- So, there will be an inflation because the farmer who will comply with EUDR will -- for sharing so much information, etc, will demand a higher price, and that's what is going to happen. So, our cost of procurement is going to go up to the extent of EUDR rubber for supplying to EU markets.
- So, we would definitely like to pass this on because it's a global phenomenon. All players -- global players have to comply to this. And there is evidence that people are tending to pass it on, and we would also pass it on. But if this gets deferred, then it gets deferred by EU.
- Moderator:** The last question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.
- Jinesh Gandhi:** My question was on the market share. You talked about gaining market share on TBR side. Can you also reflect upon PCR market share and the replacement category, how that has been trending given the changes in the market?
- Arnab Banerjee:** So, my information is dated as of quarter 1 because we have still not laid our hands on the quarter to share. But we are to close #3 in PCR share. And the gap between us and number one is not very much and we would definitely like to see us at number one in 2 to 3 years' time, and we have plans capacity-wise and new product-wise and marketing-wise to get there. So that is PCR. In two-wheeler, we continue to be number one. This is again quarter 1 figure and with a steady market share in both motorcycle and scooter.
- Jinesh Gandhi:** Got it. What will be your market share in PCR currently and in 2-wheelers currently in 1Q?
- Arnab Banerjee:** Roughly 35% in 2-wheelers and roughly 17% in PCRs.
- Moderator:** As there are no further would. I now would like to hand the conference over to the management for closing comments.
- Arnab Banerjee:** Thank you very much for a variety of questions in diverse fields from raw material to markets. Thanks for your interest, and we hope to see you soon after the end of quarter 3. Have a good festival time. Happy Diwali.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.