“CEAT Limited

Q1 FY '24 Earnings Conference Call”

July 26, 2023

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

MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the CEAT Limited Q1 FY'24 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Basudeb Banerjee from ICICI Securities. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks. Good afternoon, good evening, good morning to the respective participants. And thanks to the CEAT management for giving us the opportunity to host the call. We have with us the top management of CEAT represented by Mr. Arnab Banerjee, MD & CEO; and Mr. Kumar Subbiah, CFO. So without wasting any time, over to the management for their initial comments. Over to you, sir.

Arnab Banerjee: Good afternoon, and welcome to CEAT's Q1 FY'24 Earning Call. I am Arnab Banerjee here. I'll be taking you through the business updates for the quarter, and then I will hand it over to Kumar for his remarks on the financial performance. And then we shall be open for Q&A.

Starting with volume performance. Q1 was a good quarter for us with overall volume growth close to 3% Q-o-Q. Exports are doing well and grew at 11% over Q4. Replacement volumes saw a sequential improvement of around 4%. Q1 is generally a good quarter for passenger segments. Both two-wheeler and PCUV reported good growth. Commercial vehicle tyre sales saw a marginal drop. OEM volumes dipped 3% Q-o-Q, primarily because of portfolio changeover in the PCUV segment, where we are exiting small rim-size vehicles and entering higher rim -size vehicles. And this makeover will take 1 or 2 quarters more.

Demand outlook, monsoon so far has been near the long-term average. However, we'll have to wait out through Q4 and see how well it is distributed across the country. Rural demand is showing some signs of uptick, but we'll have to wait, as I said, through the Q2 see how it (monsoon) impacts demand. Replacement demand has been stable overall across categories: motorcycles, scooter and passengers growing well with commercial vehicle segment showing some constraint in growth. In the OEM side, again, two-wheelers is growing well over last quarter, whereas passenger and heavy vehicles are not doing so well Q-o-Q.

Export markets have been steady and are expected to pick up in the latter half of the year. Demand from traditional areas for us that is, Middle East, Africa, SAARC, these are improving as the currency situation is getting better in this area. Europe is impacted by mild recessionary trends, which is felt mostly on the farm radial side. Whereas U.S. and Latin America have continued to do well.

Going on to margins. Input prices have remained stable during the quarter. The commodity basket declined by about 1.5% vis-a-vis Q4. We have largely been able to maintain our pricing in replacement market, which has helped us sustain gross margin around 41% level. Standalone EBITDA margin for the quarter is at 13.2%, and standalone net profit is around INR 159 crores. In the current quarter, at an annualized basis, our post-tax ROCE has entered double-digit levels.

And we intend to focus on this parameter going forward. We have been doing lot of work around efficiency improvement and zero-waste approach to cost over the last 2-3 years, which will come in handy as far as our margins and ROCE is concerned.

On the future trends, which we keep talking about, there are 4 of them: electrification, globalization, premiumization and digital. Going one-by-one, in the electric vehicle segment, we continue to hold 40%-plus share in electric vehicle two-wheelers. In passenger segment, we are either nominated and launched or we are working with OEMs to work on several projects, such as Mahindra XUV400, MG Comet, ZS EV, Citroen C3.

We are working with Tata, Kia as well on their EV projects. So we will have a good share in the electric vehicle four-wheeler market as well. In the TBR segment also in electric vehicle buses, some of our approvals are in Tata Motor Ace electric mini pickup, the Starbus project, electric buses by Volvo Eicher, JBM, BYD, PMI Electro. So we are well-placed as far as EV is concerned in all segments.

Now globalization is going to be a key driver. 19% of our value is coming from international business, and we want to see it going up over the years. We have already doubled our sales from focused geographies of EU and in Americas in the last 4 years. On the off-highway side, we have a good presence SKU wise and we have an entry to about 80% of the global agricultural market. We have got into flagship OEMs such as John Deere, CNH, AGCO, for this business. And we'll continue to focus on faster ramp-up of agri radials.

On the passenger side, passenger car tyre segment , our export sales hit a run rate of about 2 million tyres per annum and a bulk of it is coming from the European Union. TBR tyres also have been launched in Europe and have seen good acceptance by customers. It has grown very well in Latin American marketand we are on course for a rollout to U.S. in the Q4 of current financial year.

Closer home, Sri Lanka situation is improving. Currency has been stable, and the tyre demand there also should start recovering going forward. Q1 has been much better. We have opened our CEAT Shoppe, which is an exclusive CEAT showroom outside India, that is in Nepal.

The third trend is premiumization. And here we are well-placed with our 4 premium platform in passenger car tyre, which is SportDrive, CrossDrive, SecuraDrive and SecuraDrive SUV. Revenue share from these premium platforms is tracking close to 28%, and this should keep going up over the quarters. We did the strategic time out in IPL 2023 campaign. We were also present on media, which was focused on SUV tyres once again.

Continuing our association with cricket, we signed out with Matthew Hayden. And we want to associate with him over the cricket properties that are coming up this year. In two-wheeler segments, with the premiumization outlook, we have started investing in new properties such as Supercross League, Enduro Tracks, which is an adventure event, Discovery Rides with premium bikes and Rider Mania. And these properties will grow in the future. We continue to invest in the CEAT brand. And even as we speak, with the heavy monsoons in Mumbai, we are on with our two-wheeler monsoon tyre change campaign.

To provide a premium one-stop experience to commercial customers, we have opened the largest truck service hub in Gandhidham, Gujarat, which has 6 service bays in Q1. It has a retreading unit as well where Marangoni has set up the unit. And consequently, we are looking at a partnership with Marangoni over retreading.

On the digitalization trend, the Lighthouse 4.0 success continues. We are horizontally deploying it to Chennai plant now and looking for more certifications in the coming quarters. Coming to D2C channel, our passenger car tyre sales in D2C channels has moved up to 6%, and we have decided to invest in marketing CRM in the coming quarters.

Our total capex for FY'24 is likely to be around INR 750 crores.

We have looked at our TBR strategy closely over the last few quarters. We have established significant superiority of our products, leading to better pricing and margins for TBR. All these new TBR platforms are doing well on tyre life, fuel efficiency and rank amongst the best in their respective ranges. OEM acceptance has been good with our share going up to double digits. And as a result of this strategy, our margins in domestic TBR has been on an uptrend.

We have received good feedback and acceptance in international markets as well. And as I mentioned earlier, we are poised to launch it in the U.S. market later in the year. Our Halol capacity utilization has crossed 90% level. And therefore, we think it is important to resume the Chennai TBR expansion, which was approved by Board earlier. The Board had approved the full project of around 90,000 tyres. We are taking up only half of that as Phase 1, about 45,000 tyres. The total capex over the years will be around INR 700 crores. This investment fits well into our plan of incurring bite-sized capex every year and into our pecking order of capital allocation across categories.

On sustainability, we are continuing to do well. For instance, ton CO_2 emission per metric ton has reduced by 9% Y-o-Y. 36% of our plant power requirement is tied up through renewable sources versus 26% a year ago. We will continue to increase this saliency. Water consumption per tonne reduced by 12% Y-o-Y. We were also recognized at the Economic Times Sustainable Organization 2023 Forum for our sustainability initiatives.

So FY'24 is turning out to be a steady year from demand perspective as well as from the perspective of raw material prices. Our focus will be now to accelerate growth momentum, invest in the brand, invest in market presence, manufacturing capabilities and takes CEAT to a sustainable, healthy margin and in a superior ROCE orbit.

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

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

First, on revenue. Our consolidated net revenue for the quarter stood at INR 2,935 crores, a growth of about 2.1% Q-o-Q and 4.1%Y-o-Y, which has a mix of both price and volume growth.

And coming to gross margins, our consolidated gross margin improved by about 100 basis points Q-o-Q sequentially and about 940 basis points Y-o-Y, largely driven by a drop in raw material costs and better product mix.

We are witnessing some kind of stability in the prices of base material like crude oil, rubber and also currency that helped in terms of maintaining stability in the prices of raw material costs for the last 6 months. While crude oil prices have moved up in the last 2 weeks from $75 level to around $83 as we speak, we still expect our raw material prices to be within the range as far as Q2 is concerned.

Coming to debt, capital expenditure and working capital. We spent about INR 220 crores on various capex items during the quarter, which consists of both projects as well as normal capex. We prioritized high-impact capex and key project capex in Q1, leading to incurring of capex a little more than the proportionate amount for the year. As Arnab mentioned, we would like to maintain our overall capex guidance of INR 750 crores for the year FY'24. Now working capital as of end June remained at similar levels of Q4 FY'23. That is around negative INR 142 crores. Small increase in raw material inventory and receivables was offset by marginal increase in payables during the quarter that helped us to maintain the same level. We generated healthy operating cash flow, which was used to meet and fund our capex for the quarter and also reduce our debt to the extent of about INR 97 crores.

Our consolidated debt stood at INR 1,989 crores, a reduction of about INR 97 crores over Q4 FY '23. The above reduction of INR 97 crores is over and above INR 252 crores of debt that we were able to reduce in Q4 FY'23. With these improved EBITDA and lower level of debt, debt equity stands at below 0.6 as of end June and debt/EBITDA is at a comfortable level of about 1.5x *(note: please read the number corrected as 1.7x)*.

Coming to our operational expenses. Employee costs during the quarter was lower to the extent of about 8.5% sequentially. It's largely on account of slightly higher provision in Q4 in our books on account of some settlements signed with employees in one of our older factories and also contribution towards performance bonus. During the quarter, our expenses increased on account of higher marketing costs and annual conferences, advertisement, travel and other costs. In our subsidiary Sri Lanka business operated slightly lower volumes and as a result, profitability remains impacted. Country's overall look in Sri Lanka is improving, and we are hoping of some recovery in tyre demand in the coming quarters.

Finally, our consolidated EBITDA for the quarter stood at INR 385 crores, which translates to about 13.1% EBITDA margin, about 20 basis points improvement over Q4. Depreciation and interest costs were similar to Q4 FY '23. Effective interest rate went up by about 80 basis points in Q1 versus Q4, but we largely neutralized the impact through reduction in our debt. We expect the interest rates to go up further in the range of anywhere between 20 and 30 basis points in near term.

We'd also like to share with you that in the month of July, on 5th of July when we convened our Annual General Meeting, shareholders approved declaration of about 120% of annual dividend, translating to about INR 48 crores has been since paid in the month of July. Also happy to share with you all that CEAT received an award from CNBC and ICICI Prudential under the category Masters of Risk Award:Auto-Ancillary Sector in large cap category. This has provided reassurance to us in terms of our best-in-class management practices.

With that, I open this floor for Q&A.

Moderator: Thank you. The first question is from the line of Aashin Modi from Equirus Securities. Please go ahead.

Aashin Modi: Thank for the opportunity. Congratulations for a great set of numbers. So sir, my first question is on the margin side. So could you please provide more colour on margins? What is the quarter-on-quarter impact of higher A&P expense? And what was the impact of RM price pass-through and price escalations and RM on the gross margin level on a quarter-on-quarter basis?

Kumar Subbiah: Yes, overall, on aggregate basis, raw material costs went down by about 1.1% in Q1 versus Q4, And that being about raw material costs being around 60%, 65% of our sales value, 60%, let's assume. That much favourable impact it has in Q1 versus Q4. Our marketing expenses, all our sales-related expenses overall about impact of about 0.4% adverse versus Q4. And selling price more or less remained constant, was marginally lower on account of BU mix. So balance everything through efficiencies and other aspects that Arnab had covered, is flowing into our gross margins and EBITDA margins.

Aashin Modi: Sure, sir. Sure. And then my next question is on free cash flows. So sir, our standalone gross debt reduced by INR 97 crores during the quarter. What was the capex during the quarter? And working capital, as you have mentioned that it was expected to increase with RM softening. So how do you expect the RM, the working capital change going ahead? And how do we see free cash flow generation from here?

Kumar Subbiah: So during the quarter, we generated free cash flow. We generated free cash flow in Q4 too. So we repaid INR 97 crores of debt. And as was covered, we incurred our capex of about INR 220 crores. So everything was funded through internal accruals. But I did not say, nor Arnab said that lower raw material prices will lead to increase in working capital. Maybe in the previous quarter, we said we would like to normalize working capital in terms of FG inventory and RM inventory, not relating to any drop in raw material prices. At some point in time, as our sales volume increases, we'll have to keep the inventory back to the normal levels, some kind of a normalization. Part of the normalization happened in Q1. And in general, we would like to keep the working capital at the current level in terms of absolute value.

Aashin Modi: Sure, sir. And then my last question. Could you please provide some colour on demand on the replacement and export side, a segment-wise colour on demand going forward?

Arnab Banerjee: So going forward, if the monsoons are good and rural demand picks up, we are looking at two-wheeler demand picking up to high single digit, low double-digit level. It's done well in Q1, demand-wise. And passenger segment also has done well, and we expect this to be in high-single digits with more SUV tyre demands, higher rim -sizes demand, the market shifting towards that kind of demand. We are not so certain about the commercial vehicle side, which in OEM as well as replacement has been constrained. In fact, Q-on-Q, OEM volumes dropped significantly. And replacement volumes also have been tight. So that's the only spoiler. Otherwise, on the passenger side, we are looking at it positively.

On the export side, given the scale of global markets, we are a small player. So the recession in Europe is not going to impact us in any significant way in four-wheeler sales, which is passenger car tyre sales. It may have some headwinds towards the agri radial sales. US is doing well. Latin America is doing well. So from our growth perspective, it will not be a big impact, either positive or negative.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Congrats on a good set of numbers, sir. Sir, how are you seeing the resilience of the tyre industry in terms of profitability post the importrestrictions? Are you seeing the local manufacturing players focusing more on profitability despite demand being low? How do you see the competition of the new players entering India with the local plants like Michelin plans to set up a new plant? Or any current players expanding faster?

Arnab Banerjee: We have not yet seen any significant price erosion in the replacement market. It has been competitive. And on the passenger side, demand is okay, given the circumstances, as I mentioned in my previous response. It is high single digit, low double digit kind of thing in two-wheeler, high single digit in passenger.

It's in the truck/bus radial side where demand may be a little bit constrained. So we really don't expect too much of a realization drop from our side going forward. In the OEM, of course it is indexed so realization will move along with the raw material movement. So if your question is about competitive intensity and resilience in terms of margin, then this was the scenario in the pre-COVID years also, FY'17 to FY'20, where our gross margins used to move between 40% to 42%. And that's where we are in Q1 and around 41% margin. So as far as we are concerned, we are looking at stability of margins.

Mumuksh Mandlesha: Thank you. Can you share the Y-o-Y volume growth in terms of channel-wise and product-wise, sir, for Q1 quarter?

Arnab Banerjee: Quarter-on-quarter value-wise?

Mumuksh Mandlesha: No, volume-wise, Y-o-Y, for the channel and the product, sir?

Arnab Banerjee: Okay. So Y-o-Y truck/bus radial, we have overall grown by about 5% odd. And we got a big entry into OEMs in the truck/bus. I'm talking mostly radial. So overall, we have grown by about 35% in OEM. We have grown by high double digits in export also. Replacement had been slower growth, single-digit kind of growth in truck/bus radial Y-o-Y. And off-highway has been growing pretty well, in terms of double-digit growth. The farm sector has really done very well in replacement, in OEM and as well as in international markets. We are having high growth here.

Two-wheeler has been modest in terms of low single-digit kind of growth Y-o-Y, with replacement being flattish. OE and international growing in high single digits.

Passenger, again, Y-o-Y has been low single-digit growth with us doing very well in the international market in exports, especially EU. Replacement also doing well. Whereas because of the reasons explained earlier, we have taken a beating in the OE segment temporarily because of the inch-wise portfolio changeover from 12, 13 inch tyres to 16, 17, 18 inch tyre, and this will come back over quarter 2, quarter 3, and quarter 4.

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

Siddhartha Bera: Congrats on a good set of numbers. Sir, first question is on the mix. Can you indicate what is the replacement and export mix in the current quarter versus last quarter?

Arnab Banerjee: Value-wise, the OEM is 27% and replacement and export will be making up the balance. So there's a 2% to 3% improvement in mix in Q1 vis-a-vis last year.

Siddhartha Bera: So replacement would have gone up by 2% is what you are saying?

Arnab Banerjee: Replacement plus international. OEM would have gone down by 2% to 3%.

Siddhartha Bera: Okay. So based on your expectations, so this should normalize over the year? Or you think some of the growth in the replacement and international will continue?

Arnab Banerjee: International will definitely grow. And we would like to push this further. Replacement, if the monsoons are good and two-wheeler demand is good, then the passenger side will grow aggressively. So minor changes could be there over the next few quarters.

Siddhartha Bera: Got it. And sir, I just missed that TBR capacity expansion capex you mentioned, what was the number? And by when do you plan to sort of start investing on this?

Arnab Banerjee: So the total amount of capex in Phase 1, which is about 45,000 tyres, we mentioned about INR 700 crores. And not much of it will be incurred this year. And anyway, it is included in our capex forecast of around INR 750 crores this year.

Siddhartha Bera: So INR 750 crores includes all project plus maintenance or it is only the project capex?

Arnab Banerjee: It includes all projects plus normal capex, which we incur every year. It's all inclusive.

Siddhartha Bera: Okay, okay. So most of the TBR investments you are saying will happen more towards the second half or next year?

Arnab Banerjee: Yes, exactly.

Siddhartha Bera: Okay. And sir, what is the utilization levels in the passenger car segment for us currently?

Arnab Banerjee: Roughly, it is around 75% passenger car and two-wheeler segments.

Siddhartha Bera: Okay. So there, you don't need to do much capex in the current or coming year?

Arnab Banerjee: There is enough headroom to grow there.

Siddhartha Bera: Okay. Got it. And sir, lastly, I think for the exports, you mentioned it may be close to 19% this quarter. And generally our ambition is to go up to 25%. So I understand we are doing a lot of things, but just in terms of when shall we start expecting a meaningful pickup in the numbers? Will it be more towards next year? And any target for the next year in terms of mix you have?

Arnab Banerjee: No, it will be gradual over the next two years, three years. 25% is a medium-term target that we have been sharing FY'26 kind of thing. So that is over two years, three years, it will go. We should see improvement gradually quarter-on-quarter towards the next half of this year. I think there's lot of things lined up on agri-radial side, our PCR side as well as getting to US by Q4 this year. So it will be a gradual step-by-step increase.

Siddhartha Bera: Got it. Sir, last question on the margin. So when you say that you are focusing more on the higher-rim-size models in passenger vehicle segment, does it mean that, it will be sort of a slightly better margin segment generally compared to the other PV segments you are catering to?

Arnab Banerjee: Yes, it has significantly higher margin profile than, let's say, 17, 18 inch would have a much better margin profile than a 12, 13 inch tyre.

Siddhartha Bera: Okay. Got it, sir. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Congrats on good set of numbers. Quickly on the INR 750 crores capex for FY'24. To clarify, it would not have any material capex from TBR expansion, right?

Kumar Subbiah: Yes. No. See, as Arnab mentioned, TBR INR 700 crores is Phase I. Out of that INR 150 crores, we have already spent on civil and PEB, and some advances. We are talking about INR 550 crores of capex, balance capex for Phase I to produce that 45,000 tyres kind of volume per month. So therefore, within that INR 550 crores, there will be some in the current year and some in the balance next two years or so. So it would be in line with the overall guidance of INR 750 crores that we have given. Okay, I don't think it's going to make any impact on the INR 750 crores on the total number.

Jinesh Gandhi: Yes. And the only growth capex in this would be the TBR one, the OTR, the balance in capex, would that be correct?

Kumar Subbiah: Yes. No, some downstream on PCR, little bit on two-wheelers, And we also have something on specialty bias' capacity. So it's a mix of all of that, where depending on our demand, we are spending. On specialty, we have already announced that is agri radial. So it consists of all of those.

Jinesh Gandhi: Okay. And of the INR 750 crores, roughly INR150 crores would be maintenance.

Kumar Subbiah: It is a range. See, maintenance means it includes R&D, it includes moulds, it includes IT, digital related, sometimes some other smaller debottlenecking proposals are also there in that part of the INR 150 crores. I think we should take it as INR 200 crores kind of a number instead of INR 150 crores.

Jinesh Gandhi: Okay. Got it. Secondly, coming to the OTR side. So can you update on where we are in terms of our capacity? I believe it's about 105 TPD. And what is your utilization there and expansion plans?

Kumar Subbiah: There we have been adding capacities in phases. And the last time, about six months back, we took the capacity to about 81 tons at our Ambernath. Sometime in the current quarter, it will go up to 105 tons. What we announced was 105 tons to become 160 tons, another 55 tons that we are adding., that will be in the next financial year.

Jinesh Gandhi: Right. And that would be with the capex of?

Kumar Subbiah: So when we announced that 55 tons, we said about INR 385 crores is the capex that we have planned, overall. So that will be spent between this year and next year. That is part of the INR 750 crores that we indicated for current year.

Jinesh Gandhi: Right. And beyond this 160 TPD on the radial, what would be our capacity and the bias for agri or the OTR side?

Arnab Banerjee: The bias capacity would be approximately 100 tons-plus, 120 tonnes.

Jinesh Gandhi: Okay. And that doesn't need any expansion?

Arnab Banerjee: Our utilization is good. We have a plan for expanding. We'll do it whenever it's required. Right now, immediately, no.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Market Limited. Please go ahead.

Jyoti Singh: Congratulations on the good set of numbers. My question is on the, could you please throw some light on the launch in US, while we are in the planning phase? And additionally, it would be helpful if you could set light on the targeted revenue aspects. And my second question, I would greatly appreciate an explanation about the momentum observed in the southern state as earlier we were witnessing weakness? Thank you.

Arnab Banerjee: On to your first question, the US launch will start from FY'24, Q4, starting with TBR and then following with the first range of SKUs of PCR. So as far as our market research goes and our preparation goes, it is on schedule. It's very difficult to put a turnover target, etcetera, because it depends on market access also. US is a huge country, where you have to have channel set up across the country to be able to access the entire market.

So suppose I just set it up in Southern U.S. and Texas and Western U.S., then large part of the Midwest and Eastern side is not accessible. So it will depend on what rate we progress towards market accessibility. I think we are pretty bullish in terms of ramp-up being faster than our Europe business. So yes, so maybe closer to Q4, we'll be in a position to have a view and share what is our outlook for FY'25. What was your second question?

Jyoti Singh: Sir, second question on the momentum observed in the southern states as earlier we were witnessing weakness.

Arnab Banerjee: Southern states of India, right?

Jyoti Singh: Right.

Arnab Banerjee: Yes. So I think we are putting a lot of effort there for all the categories, two-wheelers, four-wheelers and TBR. We have seen good traction in TBR. We are seeing good traction in PCR. And two-wheeler is stable. Two-wheeler, we are relatively better off in South and West. So there's more stability in that size. And we are chasing growth in four-wheeler and TBR.

Moderator: The next question is from the line of Joseph George from IIFL.

Joseph George: Just couple of questions. One is, what is your overall volume growth on a year-on-year basis because the revenue growth is single digit and you seem to indicate that every segment has seen volume growth, what is your overall volume growth on a year-on-year basis?

Arnab Banerjee: On a Y-o-Y basis, overall growth is around 1.5%.

Joseph George: Okay. And so which segment saw declines because earlier when you gave the volume growth number across segments, most of the segments seem to have growth.

Arnab Banerjee: Yes. There is one LCV and a small commercial vehicle segment which has declined, which is not a priority segment for us. Then passenger and two, three-wheeler have grown in low single digits, just about positive. And off-highway and truck/bus have grown a little, higher single digits. So it works out to weighted average level of 1.5%.

Joseph George: Understood. And sir, the next question that I had was when you look at your RM basket, you mentioned that 1Q saw a 1.5% Q-o-Q drop in the RM basket. When you look at 2Q, how do you see the RM basket moving on a Q-o-Q basis compared to 1Q better?

Kumar Subbiah : See, we expect it to be within a range. We don't expect any significant upward movement, but one or two raw material prices have moved up. For example, carbon black prices have moved up from 1st of July as the feedstock that goes into it have seen some upward movement. Recently, in the last 1 to 2 weeks, we're observing some increase in crude, Brent crude. It was hovering around $75. As we speak, it's about $83 or so.

It may not have material impact in quarter 2 because we are already end of first month of the quarter 2. And generally we have cover for 2 months or so, but we expect it to be within a range, maybe plus or minus 1% over last quarter. That is a range in which we expect RM prices to be in quarter 2.

Moderator: The next question is from the line of Mitul Shah from DAM Capital.

Mitul Shah: Congratulations, sir, for a good set of numbers. Sir, my question is on export side. How has been the pricing there?

Arnab Banerjee: So export side, quarter-on-quarter, there is minor drop in realization, about couple of percentage points. And because there the pass-through happens very quickly, especially in Europe, U.S., Latin America kind of market. But I would say that's fine, and we don't expect to, prices to drop significantly going forward.

Mitul Shah: Across the products or any specific term?

Arnab Banerjee: It's a narrow product range. It is primarily on the commercial side. Yes, you can say across the products.

Mitul Shah: Okay. And second question is based on your presentation and you also highlighted about this portfolio rejig in PCUV. So can you give more details? And how much one can consider impact in Q1? And what would be the recovery expected in Q2 on this?

Arnab Banerjee: Yes. So a significant proportion of our OEM sales of passenger vehicles were coming from lower rim sizes. That has gone to zero. And as our volumes grow from 14, 15, 16, 17, 18inch rim sizes, mostly the bigger cars, SUVs, etcetera, it will start trickling in from Q2 and have full recovery by end of Q3 in terms of overall volume.

Moderator: The next question is from the line of Chirag from White Pine.

Chirag: Congratulations for a good set of numbers. Sir, just a follow-up on the earlier participant's question, sir, you said that the supply for the 13-inches tyre has become zero from your side?

Arnab Banerjee: Not zero. 12, 13, 14 put together, these are the lower-rim sizes. It has significantly reduced.

Chirag: And so would there still be low to mid-single digits or high single digits? Of the overall PCR tyres, they would be around single digit? That is what you're indicating from it used to be much higher earlier?

Arnab Banerjee: See, if I was selling 100 tyres, were about, let's say, 50%, 60%, it has reduced significantly in OEM. This is in OEMs.

Chirag: Yes. So, how much of this is outside the industry shift that we have seen, right? One is that this smaller inches tyre, the industry proportion has changed. And second is you may have chosen not to participate in some of these businesses. So between the two, how should we look at it?

Arnab Banerjee: It's a mixture of both. You're right. The market itself is shifting towards CSU, compact SUV and SUVs. And so the proportion of 12, 13, 14-inch, 12 and 13 mostly is reducing significantly. And we also see and saw an opportunity to focus more on the higher-rim size vehicles, the SUVs, etcetera. And so it's a combination of two.

Chirag: Fair point, sir. And a parallel conclusion is that your market share in higher-inch tyres in PCR would be much more than your average market share, right, in the PCR category?

Arnab Banerjee: After this changeover in OEMs, yes.

Chirag: Yes, in OEM, definite OEM, sir.

Arnab Banerjee: Yes.

Chirag: Sir, this is helpful. Sir, one last question, if I can squeeze in. So this INR 700 crores capex for this year is largely debottling, right, except for the TBR capex that you already indicated which will happen in H2 a little bit. So, this INR 750 crores -- large part of this INR 700 crores capex is more of a debottlenecking capex, that is the right way to understand, correct? And that would add anywhere between 5% to 10% of your capacity, including down streaming and parallel expense, and is it all included?

Kumar Subbiah: No. See, it's INR750 crores. And that INR 750 crores includes project capex for Ambernath where we are doing agri-radial. Some downstream two-wheeler plant at Nagpur, downstream passenger car radial at Chennai, then some specialty bias capacity conversion in our older factories, plus our normal capex. And we're also spending some money on debottlenecking.

Like, for example, we did some debottlenecking in Halol factory, okay, to increase our production. So all of them put together is about that INR 750 crores. In case of TBR, we may have some cash outflow, some cash outflow during the current year. And that will be part of that INR 750 crores is what we are seeing.

Chirag: Sir, why I'm asking is that this capex would be significantly margin or return on capital accretive, right? This particular capex that you are doing.

Kumar Subbiah: Yes, correct. See, normally when you do a debottlenecking, capex per tonne is lower. And obviously, on that capex, the incremental ROI would be higher than the greenfield or a brownfield kind of capex. Yes.

Chirag: And sir, as a clarification, in '25, what kind of capex, INR 700 crores ballpark number is a fair assumption to look at, plus/minus depending upon how the demand, etcetera, behaved. But INR 700 crores kind of a run rate is a fair assumption for FY '25 project capex or it would be far lower than that?

Kumar Subbiah: So first of all that, please take that as INR750 crores for the current year. And again, I know, see look, generally we carry out a long-term demand plan, supply plan in the Q3 and Q4 of the financial year and accordingly determine the capex requirement of the following year. That is the process. I think as we also earlier mentioned that we have created enough upstream capacities. Downstream, we're involving lower lead times, would be considered in our annual plan.

And anything which is greenfield, our larger capex is where it requires some planning. We have enough headroom for us to generate revenue from the capacity that we have already created. But in general, I think the number that you have indicated could be used as for the purpose of estimating the next year requirement, but we'll be able to provide clarity more in Q4 after we carry out our annual plan where we will have LTDP and LTSP.

Chirag: No, fair point. This is very understandable, sir. And basically sir, FY'25 also there could be a good amount of debottlenecking capex and not a major brownfield or greenfield except for the TBR. So I was trying to understand how the capex nature would be in '25, would it be more of Greenfield, brownfield or it would be more of debottlenecking that what we are doing in '24. That was the objective.

Moderator: The next question is from the line of Garvit Goyal from Nvest Analytics.

Garvit Goyal: My question is on basically the demand side, like are you getting any kind of weak signals on the demand side from the export or either on the domestic part? Actually I joined the call a little bit late, so let's -- can you please put some light on the demand outlook, whether you are running on any weak capacity utilization levels due to a rising import or something.

Arnab Banerjee: On the demand side, I had mentioned that it depends on the monsoon again. If the rural demand looks up, then we are a little bit positive on the two-wheeler side. It could be high single-digit or low double-digit kind of market growth. Passenger car tyres would see a solid single digit, high single-digit kind of demand growth is what we estimate. There could be some constraint on the commercial vehicle demand side as we are looking at both OEM and replacement side is constrained. So this is the kind of outlook that we have at this moment for the next few quarters on the demand side.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: Sir, just to clarify on the RM cost, we are seeing stability in terms of the natural rubber and synthetic rubber so far over 1Q levels, right? Or there is some further benefit expected?

Kumar Subbiah: No, we are not expecting any further benefit on raw material costs. We expect it to be stable for the current quarter, except a couple of base material which is crude and carbon black feedstock, which is CBFS, we call it as. It moved ahead of crude in Q1, and therefore it has an impact in Q2. Crude has slightly moved up from $75 to $83. It may have some impact, but it'll have less impact in Q2. But if this sustains at that current level, there could be some adverse impact. But positively, we don't expect any impact in Q2 beyond Q1.

Jinesh Gandhi: Got it. Got it. And interest costs, do you think it has peaked out in 1Q at about INR70 crores per quarter or there will be further increase despite increase in interest rates, but our overall loans are coming down. So how do we see that?

Kumar Subbiah: See, interest rates have been steadily moving up, So we've seen about 80 to 90 basis points kind of increase in interest rate. And it looks like there could be one more change in repo rate, could be, I'm just saying. That could be another 25 basis points kind of an impact. What is there in our control is the ability to reduce, keep the debt under control. So in the last 2 quarters, we have reduced our debt by about little over INR 350 crores.

So our drive to bring efficiencies and cash and minimizing our debt will continue. But however, in terms of interest rate, there could be an increase to the extent of about 20, 25 basis points going into the future. Impact on Q2 would be minimal. But beyond that, there could be an increase before it starts coming down.

Jinesh Gandhi: So this is despite reduction in the debt that…

Kumar Subbiah: No, I've said basis means interest rate. Okay. If your question is whether the interest in absolute value will remain around INR 70 crores, which we saw in Q1, for Q2, yes. And beyond Q2, it will depend on interest rates and overall debt.

Jinesh Gandhi: Got it. Got it. And lastly, any plans to move to the new tax regime anytime soon? Or we still have substantial MAT credit for us to continue with the old regime?

Kumar Subbiah: No, we moved to the new regime 2 years back, okay? And we did have some accumulated MAT credit in our books. However, when we did an evaluation, it was making sense for us to move to new regime. Good we did move to new regime. Otherwise, the MAT credit accumulation would have increased. So therefore, we are already in new regime. That's the reason why our ETR is closer to about 25% compared to 35% that was there in the old regime.

Jinesh Gandhi: Okay. And the higher rate on consol level is just because of the lower profits of those subsidiaries?

Kumar Subbiah: Okay. No, just for everyone's understanding, it's always good to look at ETR at the stand-alone level. And if you really look at the revenue and PBT before say dividend from the subsidiary, the difference is not much. Earlier, we had a separate entity for specialty business. However, having merged that, not much of a difference. So ETR, always we look at it on a standalone basis.

Consolidated level, the impact sometimes could arise on account of the fact that standalone would have received dividend, whereas it gets eliminated at the consolidated level. Sometimes the dividend distribution tax paid by the subsidiary entity, is shown at the tax rate, etcetera. So at the quarter level, you may find some marginal difference, but on a full year basis, you may not see the difference. ETR on a stand-alone basis is a good indicator.

Jinesh Gandhi: Got it. Got it. I believe we moved in fourth quarter FY'21. Now I recollect that.

Kumar Subbiah: Which one?

Jinesh Gandhi: To the new tax regime.

Kumar Subbiah: Okay, yes. Since new regime is, it has to be from the beginning of the financial year. So April '20 to March '21. In the very first year itself we moved to the new regime. And we had enough time to decide whether to move to a new regime or not. Looking back, I think it was the right decision.

Moderator: Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

Arnab Banerjee: Okay. Thank you very much for your interest in CEAT. And we would like to come back with more transparency and openness. And we'll keep the nature of questions in mind so that we can address your queries proactively next time around. So see you next time.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.