



“CEAT Limited

Q3 FY ‘24 Earnings Conference Call”

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MODERATOR: **MR. CHIRAG JAIN – EMKAY GLOBAL FINANCIAL
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Moderator:

Ladies and gentlemen, good day, and welcome to the Q3 FY24 Results Conference Call of CEAT Limited, hosted by Emkay Global Financial Services. 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 would now like to hand the conference over to Mr. Chirag Jain, Emkay Global Financial Services. Thank you, and over to you, sir.

Chirag Jain:

Thank you, Viren. Good evening, everyone. On behalf of Emkay Global, I would like to welcome you all for CEAT Q3 FY24 Post Results Conference Call. From the management team, we have with us today, Mr. Arnab Banerjee, MD, and CEO; Mr. Kumar Subbiah, CFO; and the Investor Relations team. We will start with the opening comments from the management on business updates followed by financial highlights. Post that, we will open the floor for Q&A. Over to you, sir.

Arnab Banerjee:

Good afternoon, and welcome to CEAT's quarter three FY24 earnings call. I'll be taking you through the business updates for the quarter and then I shall hand over the call to Kumar for his remarks on financial performance, after that, we'll be opening the floor for Q&A. First, I'll talk about the volume performance. Growth momentum was good for quarter three with a 12.5% volume growth over last year.

All three market segments, OEM, replacement, and international business, have done well. International business has grown by 25% YOY, led by passenger car tyres and two-wheeler. On the off-highway side, tractor volumes -- tractor tyre volumes remain subdued, but other off-highway applications have shown good growth. In terms of geographies, we had some headwind in Europe, but other areas did well.

Replacement did well with 11% YOY growth, led by growth in two-wheeler segment. Commercial and passenger segment growths were also healthy. OEM volumes grew by 9%, again, led by the surge in two-wheelers production. We continue to do well on the commercial side. Passenger volumes -- passenger car tyre volumes were impacted by the small-sized exits that we spoke about last time, and we are gradually ramping up sizes of -- higher rim sizes tyres over the quarters.

Quarter three is seasonally a weak quarter for us, in line with historical trends. Our volumes degrew 1.7% over quarter two, primarily because of degrowth in OEM segment. Other segments were more or less flattish with mild positive growth. We have done well in PC -- in passenger market share. We've been growing from 11% in FY '19 to 16% now. And even last quarter, we had a significant growth in market share in replacement Q3 on Q2.

We also gained market share in scooter in replacement in Q3 on Q2, and market shares for motorcycle tyres and truck tyres were flat. Demand outlook seems steady. Inflation has moderated, all frequency -- all high-frequency indicators are stable. Kharif output is estimated

to be lower. However, rabi-sowing has been normal. We are hopeful and positive on overall economic prospects.

2024, we'll see probably a slower OEM growth because of the high base effect. However, in replacements and international business, we expect decent volume growth. During the year, we have seen double-digit growth for scooter tyres in replacement, mid-single-digit growth for passenger tyres, motorcycle tyres and commercial vehicles, and we expect the growth rates to be on similar lines.

Commodity basket increased by about 2.5% vis-a-vis quarter two, in line with our expectations. This was largely led by crude derivatives and natural rubber. The prices have been range bound since last couple of months. So for Q4, we expect RM cost to be in line with the current quarter. We have largely been able to maintain our selling prices in replacement market, in OEM market, the indexation-related changes happen quarter-to-quarter.

And we have made some price corrections in export market to be competitive. The drop in margin Q-on-Q was made up through operational efficiencies. So the drop in EBITDA margin was less than the drop in gross margin. Capacity utilization overall, 75% to 80% with higher utilization on the TBR side, and healthy margins and higher utilization helped us to report double-digit post-tax ROCE as well.

We continue to focus to improve capital productivity and efficiency and this is giving long-term sustainable results. We are future ready. We have been maintaining our stand on four megatrends: electrification, internationalization, premiumization and digital. On electrification, we maintained our strong share of about 40% of OEM business, including the start-up models.

In the passenger side, we have now participation in EV models of Mahindra, MG, PSA, and we are also engaged with Tata, Kia, BYD as well. In the commercial side, EV, Tata, Olectra, Volvo-Eicher, Mahindra, PMI, etcetera, are brands, which we are engaged with. Also three-wheelers like Altigreen, Euler, EVage, etcetera.

In international, our -- we have had a robust growth in quarter three, as we talked about. We also plan to further accelerate the growth with product launches in off-highway, passenger as well as TBR tyre. Our US GTM rollout plan is on time with PCR and TBR. Launching with -- for 150-plus SKUs in the US, Sri Lanka macro situation is normalizing and tyre demand has improved significantly.

The saliency of export, we will try to push up from 18%-19% to 25% in two to three years, which means almost doubling of our exports. Premiumization, we recently launched -- at the top of two-wheeler portfolio, we've launched CEAT motorcycle steel radial, and we would like to cover this range right up to 1,000cc plus super bikes.

During Q3, we launched the play on Any Terrain Campaign on -- for four-wheeler tyres on digital medium, and it had close to 11 million views. The CEAT premium range of passenger tyres, CrossDrive, SportDrive, SecuraDrive, and SecuraDrive SUV are doing well with increasing saliency.

Our spend towards brand building is consistent in the 2% range year-after-year, which also happens to be the highest in the industry. Our R&D spend is one of the highest in the industry, and we intend to keep the spend in -- on marketing and R&D on a sustainable basis at this level or even higher going forward.

We will be focusing on launching new products at the premium end based on customer needs. Off-highway and premium passenger tyres, including SUVs for India and export markets would see the most activities. We have about 160 patents filed out of which 33 have been granted. On the ground, about 340 exclusive outlets were present in FY21, which has since grown to 550 by end of -- by this year.

Our touch -- sales touch points have improved to 55,000 in two years and we'll seek expansion of each. Our share -- our coverage for premium, super premium luxury cars, which is BMW, Audi, and Mercedes, is now in the range of 85% to 90%, and we would like to keep the coverage at this level with -- even with the introduction of new models by the OEMs.

On digitalization, we will continue to horizontally deploy the Lighthouse related gains of our Halol plant to Chennai plant and Nagpur plant through implementation of Industry 4.0 concepts of advanced analytics models, which will help us immensely in efficiencies and reducing energy consumption. On the customer side, we would like to be engaged digitally in the right context.

We have had 1.5x higher searches on the CEAT brand for SUVs, overall 50% increase in brand success, a 77% increase in brand conversion volume, 143% increase in average engagement per compared to FY23 baseline. We are generating about 8% passenger tyre sales directly from B2C channels. And now we have about 1 million visitors per month on our website. Our capex is going to be around INR800 crores to INR825 crores for FY24.

The expansion projects are all on plan. And we want to reiterate our strategy of doing bite-size capex every year, which will help us to maintain a steady growth while maintaining the financial ratios. We are committed to sustainability. And in the nine months YTD FY24, our tons per CO2 emissions reduced by 13% Y-o-Y, 35% of our plant power requirement is tied to renewable sources, and this will increase further during FY24.

Water consumption per metric tonne in -- has already reduced by 5.5%. Natural rubber sourced by alternate source is today at 24%. We have also been able to reduce the rolling resistance of tyres by about 10%. Overall demand situation is good. RM is stable. We are hopeful of this benign macro situation to continue, and we look forward to further strengthen the CEAT brand through our marketing and R&D investments.

We are also striving to improve our cost efficiency and capital productivity continuously and aim to deliver market-leading returns. Now 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 quarter three FY24 earnings call. I'll share some further financial data points with you, post which we can enter a Q&A session. First on financial performance. Our consolidated net revenue for the quarter stood at INR2,963 crores, year-on-year growth of about 8.7%, driven largely by volume

growth; and quarter-on-quarter, we observed some -- minor drop due to seasonality of the business.

Next, on gross margin. Raw material basket observed an increase of about 2.5% in quarter two FY24. This, along with some minor price correction in the international markets and adverse product mix led to gross margin contraction to the tune of about 202 basis points on quarter-on-quarter, while there has been substantial improvement in gross margin vis-a-vis same period of last year.

Crude has increased more than -- had increased more than \$90 to \$95 range -- operated largely \$90 to \$95 range in the first two months of the previous quarter but corrected in the later part of the last quarter to range of \$75 to \$80 since December. And in the last one month-or-so, natural rubber prices have increased by about \$120 in the international market, and the same is reflected in the local market. And rupee has more or less remained stable in the range of INR83 to INR83.30. Considering these factors, we expect raw material basket to be range-bound in quarter four.

Coming to capex, cash flow and working capital. Our capex outflow during the quarter was about INR215 crores. And cumulatively, we have spent INR605 crores in the first nine months. We expect our capex for the year to be in the range of, as Arnab mentioned, in the INR800 crores to INR820 crores on a full year basis.

Our working capital during the quarter went down by about INR111 crores, driven largely by improvement in receivables and enlarged payables. And I'm happy to share with you that we ended the quarter with negative working capital about INR249 crores. Our operating cash flow during the quarter and also in the first nine months has been very healthy. Our consolidated debt stood at INR1,729 crores, a reduction of about INR162 crores in quarter three versus quarter two.

In the first nine months of the current financial year, our gross debt has come down by INR363 crores and by INR618 crores in the last 12 months. With a drop in our debt and with a healthy generation of cash profit in the first nine months of the current year, our key leverage ratios like debt-to-EBITDA on a consolidated basis stood at a healthy level of 1.05 and debt equity further improved to 0.44.

Coming to operational expenses. Our employee cost during the quarter largely remained at same levels as quarter two. Other expenses were reduced by about 9%, largely in our distribution cost, factory operating costs, marketing advertisement costs, which helped to bridge the gap in the gross margin versus last quarter to an extent of 50%. Better control of our operating expenses is flowing through in the EBITDA number as well.

Update on Sri Lanka business. Our Sri Lanka business reported strong growth in revenue and profits year-on-year. And this gives us the confidence that the business is progressively getting back to pre-economic crisis period. The Sri Lankan currency has also stabilized with a positive bias towards appreciation in the last three months.

Depreciation and interest costs were largely similar in quarter three as was in quarter two. Effective interest rate has largely remained the same in line with quarter two, and we expect interest rates to remain at similar level in the coming quarter two. Overall, our consolidated EBITDA margin for the quarter stood at 14.14%, an improvement of about 541 basis points year-on-year and a drop of about 89 basis points quarter-on-quarter.

Our consolidated profit after tax for the quarter stood at INR179.76 crores, which compares favourably with INR34.85 crores of the same period of last year. Our profit after tax for the first nine months stood at INR531.49 crores versus INR49.97 crores in the previous year.

I'd like to give an update on the credit rating. The credit rating agency, CARE, carried out annual surveillance for -- in the month of December and confirmed credit rating of AA for long-term and A1+ for the short term gets stable. With this, we can now open the floor for Q&A. Thank you.

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

Aashin Modi: Sir, congratulations on decent set of numbers. Sir, my first question is regarding your improvement of your balance sheet also reduced your debt by almost INR600 crores now. So now with the RM basket remaining stable and our -- also capex in the INR800 crores, INR1,000 crores range, do we expect to continue to reduce our debt levels or do you expect to invest into our business? How do we expect going forward?

Kumar Subbiah: We'll continue to focus on efficiencies in working capital and cash profit that we have generated to fund all our capex program. In the last quarter, we also managed to bring our working capital by INR100 crores. Now we are at minus INR250 crores level, okay, so while our endeavour is to keep it at this level, okay. At some point in time, we have to bring it back to the normal levels.

So we expect the debt to stay more or less at the current level or with bias towards some drop in the next quarter, sometimes advanced tax payment, final tax payment play some role in the cash outflow. So maybe at current level, I think we are comfortable at debt-EBITDA, one. Okay. So we may maintain at current level.

Aashin Modi: My second question regarding the profitability in the export business. So you mentioned that you've taken some price cuts in the market and now with Red Sea crisis increasing our freight cost. So how do we expect that profitability in the international business to happen going ahead?

Arnab Banerjee: The export business is margin-accretive even at this moment. All the product categories, which is agri radial, passenger radial and truck bus radial have a superior margin profile. So it makes sense to push for volumes in export markets at a moderate price cut and which we did in quarter three, and we have achieved a volume hike of 25% Y-o-Y. So we will continue to push for overall mix saliency hike of export in all geographies for all categories.

Aashin Modi: Okay. And then lastly, could you give us some colour on the demand outlook for different segments in the domestic replacement market going forward?

- Arnab Banerjee:** Yes. So domestic replacement market, if you see most of the categories, commercial, motorcycle and passenger car tyres are growing in volume terms in single digit, somewhere around mid-single digits. And so far, and it will continue to do that. The outlier is the scooter tyre category where the growth is in double digit. So that's the trend, and we expect this trend to continue for at least some time.
- Moderator:** The next question is from the line of Jinesh Gandhi from Ambit Capital.
- Jinesh Gandhi:** A couple of questions from my side. One is, when you're talking of double-digit growth in replacement. This was predominantly driven by the scooter segment and other segments remaining fairly high -- mid to high single-digit growth. That's the underlying expectation or there's something else to that?
- Arnab Banerjee:** Replacement market, are you talking of the quarter three growth?
- Jinesh Gandhi:** No. Going forward.
- Arnab Banerjee:** Industry or CEAT?
- Jinesh Gandhi:** First, for industry and in then in that context, CEAT.
- Arnab Banerjee:** Okay. Yes. So we are -- if you talk of Y-o-Y growth, we have been seeing Y-o-Y growth across segments. Yes, it is higher in the two-wheeler segments in motorcycle and scooter. In scooter, the market is growing well, and we have been gaining market share. In Q3 over Q2, we have gained market share in replacement. We have gained market share and replacement in passenger also, and passenger, as I said, is growing in mid-single digits as well.
- So -- and in TBR, we have a small base single-digit market share. So we -- on a small base, we expect to grow handsomely in TBR as well. So our Q3 volume growth has been across segments and in replacement, and we expect to grow like that in the coming quarters as well.
- Jinesh Gandhi:** Okay. But even the industry, you expect to grow in mid to high single digit on the replacement side?
- Arnab Banerjee:** On an -- the industry, as I said, is mid-single digit for most categories, but scooter tyres is an outlier, which is growing in double digits.
- Jinesh Gandhi:** Okay. That was for industry. Got it. And second question pertains to exports. So given that we are looking to double our exports in the next three years, would it be largely led by taking share from Chinese imports and their end markets? Or you are also expecting reasonably good growth in the end markets as well?
- Arnab Banerjee:** There is an impact of the availability of the Chinese market, there is protection in many of the markets. However, our positioning in the, let's say, truck bus radial or passenger radial is primarily in the value segment. What I mean is the value segment is -- if the Chinese -- if the top end European brands are at EUR100, the Chinese would be typically at EUR40, EUR45. The Koreans will be about EUR80. So we'll be around the Korean or slightly lower than that. So a long distance away from the Chinese brand.

And during recessionary conditions, usually, there is a down trading that happens. So we expect to get those benefits, and we are still in a growth stage. So we expect to keep growing as we get market access in different markets of Europe and US.

Jinesh Gandhi: Got it. And lastly, when you're looking at doubling of exports and increasing share of exports and a reasonably good growth in the domestic replacement segment? Whereas OE is expected to grow at slightly lower pace. In that context, how do we see margin valuation from where we are at 14%, where we are today? The mix improvement on its own should lead to higher margins than where we are today? Or you see some pressure on margins go up from where we are today?

Arnab Banerjee: So as we said, the raw material position is flattish, that's number one. And yes, we were trying to improve the mix in terms of businesses and product market combination. So we expect the margins to be mostly range-bound within a narrow range. I don't think we should expect any significant upswing or downswing in the near future.

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

Siddhartha Bera: Congrats on a good set of numbers. Sir, replacement growth of 11%, can you break it down into segment-wise, how it was like EV, two-wheeler, and truck?

Arnab Banerjee: So Q-on-Q, we grew about 11%, you're right. As I mentioned, we have grown across the segments. So commercial category growth is in low double digits. And so it is for passengers. These are all volume growth. The outlier here is, again, two, three-wheeler where we have grown in excess of 20%. And we have seen some headwind in farm tyres, so that growth is in single digit.

Siddhartha Bera; Sir, this is Y-o-Y growth, right?

Arnab Banerjee: This is Y-o-Y. Correct.

Siddhartha Bera: Yes. okay. And sir, the second question then is on this ASP, we have seen a fair amount of correction quarter-on-quarter. So why is it like that? And -- I mean, will it fully normalize if the growth levels also normalize going ahead? Or how should we look at it?

Arnab Banerjee: Yes. Can you please repeat your question?

Siddhartha Bera: The ASP. So we have seen nearly close to 1.7% correction in the ASP, selling prices, so why is that on...

Arnab Banerjee: Yes. And so as I mentioned, the ASP is actually pretty stable, barring some drops in the international markets, which I mentioned. In OEM, we pass on the benefits through indexation, as you know, so that happens sort of automatically quarter-on-quarter, about 70% of our OEM volumes are indexed to underlying raw material prices. And replacement ASP is flattish. So with the raw material remaining flat, I don't see any big change in ASP barring business mix-related changes. In terms of pricing, I don't see, as of now, significant changes happening.

Siddhartha Bera: Okay. Sir, second question is on the international side, you mentioned nearly 25% volume growth on a Y-o-Y basis. But the business mix, which you shared, it shows that export mix is

18% in the first nine months and in the first half, it was 19%. So it seems to have fallen down and it's not sort of going up in line with what volume growth we are seeing. Why is that? Just wanted to reconcile.

Arnab Banerjee:

Yes. So our export volume growth Q-on-Q is mainly positive. It's flattish actually, right? So as I mentioned, there are some headwinds in Europe, where we have a decent base of agri radial tyres and passenger radial tyres, what happens is that during the -- during this quarter, the consumers change over from summer tyres to winter tyres. So at that point of time, there's a pause in off-take because they have those winter tyres in their homes, which they just flip and the volume growth of passenger is likely to come back again in quarter four.

Siddhartha Bera:

Got it. Sir, lastly, on this working capital, like now you are pushing more on the exports. They're really -- do we expect working capital levels to go up or these are like the sustainable levels which you expect to continue going ahead?

Kumar Subbiah:

With the recent situation in terms of longer transit times or a sailing time, it'll -- so there'll be some impact, receivables would go up because of that. However, in the overall scheme of things, it may not have much of an impact on the working capital segment. There will be some impact, but it won't be material.

Moderator:

The next question is from the line of Aditya Rathi from Aequitas Investments.

Aditya Rathi:

Firstly, my question is around the capex. So if you can give us a brief idea about the various commission timeline of the INR800 crores capex. And secondly, also, if you can explain the INR1,000 crores capex that has been announced for FY25, various areas where we would be spending this money, that would be helpful.

Kumar Subbiah:

I think INR800 crores capex is a total capex outlook that we have given for this year. And this includes -- it's a combination of project capex as well as routine, okay, in this INR800 crores, marginally about INR200 crores is a normal routine capex, which is, say, capex on R&D, capex on molds, capex on IT, some plant-related capex. This is normally would be that range around INR200 crores, INR225 crores. INR800 crores largely is the project related -- minus INR200 crores is largely project related, okay?

Okay, so during the course of the year, we have completed or we invested in some of the projects, which are ongoing. For example, the downstream toward -- for a two-wheeler in Nagpur, something in PCR, passenger car at Chennai and some capex and specialty tyres. So these were all on-going project capex deposits we incurred.

I think that -- so we will continue to incur. Overall, in the last four or five years, about INR5,200 crores worth of capex has been approved. Again, that we have spent little lower INR4,000 crores so far. On an ongoing basis, we'll continue to spend on downstream where upstream has been completed depending on our immediate demand.

INR1,000 crores is more the estimate, which anyhow will fine tune during an annual plan and get back. Could a -- would be a kind of a number that we will have to keep incurring, assuming that we grow at the current level, considering that we have our capital, capital-intensive business.

However, we don't have a complete breakup for INR1,000 crores as our annual plan discussion is under progress. And by the end of the current quarter, we complete it for us to break that into various projects and also various categories.

Aditya Rathi:

Got it. So basically, the commissioning of all this project happens during the year only. We do not have any specific date when a majority of the capex will come on stream. Is that the right understanding?

Kumar Subbiah:

See all the projects that we had announced so far, we already commissioned. And some of them have completed. Halol truck and bus radial was commissioned and completed. We have completed the entire capex and two-wheeler tyres at Nagpur. We are at the last 5% stage in terms of down steep. Otherwise, INR520 crores-or-so, we have already incurred, completed, we are left only with last INR30 crores.

Passenger car radial tyres at Chennai, where we committed about INR2,066 crores to create some passenger car radial tyre capacity. There, capex cash flow part more or less completed, but execution in terms of commissioning is still pending, but we still have another INR200 crores to spend there. And truck and bus radial that we announced which -- we went slow involving about INR700 crores of capex as we speak, we would have completed about INR260 crores, INR270 crores and balance it's something which in the second quarter of next financial year, we will complete and we'll keep incurring as we ramp up process.

And the last one is in our specialty. We are increasing the capacity from 95 tons to about 155 -- 105 to 155 tons, which is in progress. We'll incur that, and maybe later part of next year, we'll complete that project. So these are the projects that are in progress. And some of them have been completed, few of them are work-in-progress.

Aditya Rathi:

Got it. Thank you for the detail -- explanation. Sir, secondly, my question was around the steel radial tyre initiative that we launched 5 days back. So what is the kind of market that we are targeting, given that this is a new product segment for India? And what are the export opportunities that we can see in this segment? Because my understanding is that premium tyres would typically -- we would look for global sales of this product as well.

Arnab Banerjee:

Okay. So the objective of launching this tyre was focused towards the domestic market, motorcycle and -- primarily motorcycle, which is completely biased. About 3% of this is absolute top end of motorcycle steel radial, where we have started seeing some activity from domestic players and a lot of tyres are imported because of inadequate supply in the domestic market.

So to start with it is 3%, but we are seeing a big consumer trend of stepping up the bikes that they are purchasing and in terms of consumer behaviour from just committing to actually cruising from Mumbai to Pune or Delhi to Agra and all, even going to Ladakh with their bikes.

So there is on-road, there is off-road and going at very high speeds from the highways. So this kind of behaviour will add finish to this growth of 3% saliency, this will increase in saliency very much in the next 5 years. So this is the market that we are trying to address.

Feeding this market is also OEM bike development. For example, there are two bikes already launched by Royal Enfield, 650cc and 450cc, both of them have been launched on CEAT motorcycle steel radial. There are similar lineups from other OEMs. So there's a lot of activity going to happen in with the OEMs and replacement market first in domestic. Coming to export, yes, there is an opportunity. But first, we will focus on domestic before looking at the export market.

Aditya Rathi: Got it. Sir. And lastly, my question is slightly near term. So given that you have guided the demand in replacement segment is good, and we expect the same to continue for next year. So is there any further scope for increasing realization in the replacement segment especially?

Arnab Banerjee: I think we are looking at a stable situation at this point of time. It also depends on competitive activity. Yes, we do have -- now when I say we, CEAT as well as our competitors do have some leeway as compared to the past on pricing because the industry is changing to that extent. But my view is that it will be a period of stability rather than significant increase in top line -- in sales realization. However, business mix-related improvements are definitely possible and we'll gun for.

Moderator: The next question is from the line of Vishal from Svan Analytical Instruments Private Limited.

Vishal: Sir, I have a couple of questions. Sir, you said that you have taken pricing correction in domestic OEM as a measure to pass on the RM benefit, depending on the indexation. So at current price level is the pass-on complete or there is some portion of pass-on is still remaining?

Arnab Banerjee: Yes. So this is computed at the end of the quarter. As you know, right now, the computation is quarter three on quarter two. So we expect the trend to reverse in OEMs in quarter 4.

Vishal: Okay. Okay. Sir, going forward, do you see -- you have also said that you have taken the pricing correction in the export market to gain some market share. So what is your view on your strategy going forward in near term? Will you further do such kind of action to further augment your market share?

Arnab Banerjee: I think we have taken a very minor kind of correction. So it's not that we -- that it is a long-term strategy. We are satisfied with the kind of pricing and the margins that we are getting. Raw material cost is also going to be stable. So we expect more stability in export pricing as well as volumes going forward.

Vishal: Okay. Sir, what is the volume growth you are expecting in the export market for the next year?

Arnab Banerjee: Next year planning, we are still undergoing, but it will be robust, and it will be higher than what we will plan for the domestic market. Our strategy is to kind of double the export business from wherever we are in about three years' time. So you can understand that it will be an aggressive plan.

Vishal: Okay. Okay. Sir, one more bookkeeping question. I just missed the cash or liquid investment numbers as of Q3 FY24 if you have shared that number earlier.

- Kumar Subbiah:** No, we didn't specifically share the number. There's no cash and liquid asset investment. We only had a small amount of money, which is in transit -- cash in transit. Otherwise, we didn't invest anything in liquids.
- Vishal:** Okay. Sir, what -- can you share what is the utilization levels across different segments?
- Arnab Banerjee:** The capacity utilization, you mean?
- Vishal:** Yes, sir.
- Arnab Banerjee:** Yes. So it is around -- everywhere, it is around 75% to 80%, barring truck/bus radial at Halol, which is running at about 95%.
- Vishal:** Okay. Okay. Sir, my last question regarding how are you seeing the demand scenario in export market in near term across the segments?
- Arnab Banerjee:** So as I said, the headwind in Europe is there, and it's likely to continue for some more time. We don't see that reversing soon. And other markets such as Latin America -- in US, we are going to launch two of our categories. So that's going to give us incremental growth. We are already present with agri radial in US. That's growing fine. Our base is, of course, very small. In other legacy markets of Africa and Middle East, etcetera, there is not much of an issue in terms of headwind. So overall, I would say it will be similar to what we are experiencing in this year.
- Vishal:** Okay. Okay. So sir, generally, what would be the -- is the dealer inventory levels are at the comfortable levels as per your requirement or it is on a higher side currently in export markets?
- Arnab Banerjee:** No, so the down-stocking is happening. I think it will peter out. But the overall demand level will not improve. So maybe it will stabilize the input and output will stabilize. The down stocking is more or less we have seen a couple of quarters of down stocking. So I don't think there's much of down stocking that will happen further in retail.
- Moderator:** The next question is from the line of Raj from Oculus Capital Growth Fund.
- Raj:** So I wanted to ask regarding this tweet, Mr. Harsh Goenka tweeted a few hours ago. So could you throw some light on that tweet?
- Arnab Banerjee:** You mean the Tesla one?
- Raj:** Yes, exactly.
- Arnab Banerjee:** So it's not from India. It's one of our international markets where we have fitted our super premium range, which is the CEAT SportDrive, which is also available in India, and that has been fitted on a Tesla, so he tweeted about that. This range is essentially meant for the super luxury range of Mercedes, BMW, Audi, etcetera, where we have about 90% coverage, which I mentioned in the opening remarks. So it's one of those tyres, which has got fitted and he tweeted about it.
- Raj:** Okay. Which country is it, if I may ask?

- Arnab Banerjee:** It's Dubai.
- Moderator:** The next question is from the line of Aditya Rathi from Aequitas Investments.
- Aditya Rathi:** Sir, my question is around the freight cost as of now, given the current crisis. How do we expect this to affect the margins in the coming quarters?
- Arnab Banerjee:** You're referring the export freight, right?
- Aditya Rathi:** Yes, export and import both will get impacted, right? So is there any significant impact on our margin because of this?
- Kumar Subbiah:** Okay. No, both will get impacted because overall ocean freight rates have gone up, but the freight rates have gone up more towards Western part of -- Western side of India towards Europe, North America, and Latin America and less of Southeast Asia and China to India. Raw materials come from the other side, okay, where the freight rate impact is not so much.
- But on the export side, it has gone up. We believe it is temporary in nature. Okay, it may have some impact on our realization wherever we have a CEAT contract, okay, and we'll pick up the cost to the extent that we have -- already have an arrangement on a CEAT basis.
- It will have some impact. We are not yet quantified. We are hoping it is more short-term in nature. But we'll give an update maybe by end of this quarter in case if it has any material impact.
- Arnab Banerjee:** Yes. I'd just like to add, the impact is mostly on the European routes. For Lat-Am and US, the impact is not that much.
- Moderator:** The next question is from the line of Mitul Shah from DAM Capital Advisors.
- Mitul Shah:** Congratulations on a very strong performance. Sir, I have two questions. First one is on export side. As you highlighted, Europe is under stress. But apart from Europe which other geographies do you see would be reviving or would be a key growth driver going forward in the next one to two years?
- Arnab Banerjee:** Yes. So barring Europe, to be honest, most of the other geographies are playing out fine. As I mentioned, in US, we are yet to launch. So that growth will come forward -- start coming in from a 0 base from quarter 1, which is passenger car, truck/bus radial. Our agri radial business in US is doing very well, again, on a small base. So there is no problem there. In Lat-Am, in all the countries, we're pretty strong in Lat-Am as well. We have not seen any kind of headwind there, on truck/bus radial, agri radial.
- Agri radial, there is some headwind in the OEMs, but not too much. Two-wheeler, everywhere, we sell a lot of two-wheelers in Lat-Am as well. So we are not seeing too much of a disruption there. In the traditional markets of Africa, Middle East, etcetera, Southeast Asia. So there's not too much of a change even there. So it's business as usual in most of the parts, barring Europe where there is a headwind.

Mitul Shah: Yes. Sir is there a change indication from any of this geography or we are hearing about tariff hike for US imports tariffs from Asian countries, anything on this?

Arnab Banerjee: So we have heard about US looking at imports from Thailand, but there is no concrete information there. There's a possibility that they may restrict imports from Thailand in some time. That will be a positive development for our business. But we have no confirmation of that, nor has the decision been taken.

Mitul Shah: Sir, second question on replacement side. Within all this segment, which segment do you see to be more promising, apart from two-wheeler, 3-wheelers where we have seen 20%-plus growth, but among this PCR, TBR and tractors and OTR, which segment do you think from a replacement perspective...

Arnab Banerjee: So I think -- yes, I think passenger car tyres is looking promising because the OEMs have had a terrific year and they -- the -- it's on the back of another good year last year. So those demands will now show up in the replacement market. We expect growth to be robust. Second interesting part of the replacement market is the increase in saliency of premium tyres, which is the higher rim sizes. And we are seeing a very good traction of our premium range, which I mentioned SportDrive, SecuraDrive SUV, CrossDrive, which is an all-terrain tyre, which we have launched. And this covers all the vehicles that we have in the -- on the Indian roads, including super luxury models.

So we are -- the margin profile is very good in this higher rim size tyre. So overall growth, premiumization, investment by the government in roads, trend of customers to travel longer distances with their families and friends. You have seen SUVs being 50% of the OEM sales this year. So we are quite bullish about our market share aspiration in the passenger car tyre segment. And a lot of investment is happening in R&D, and we'll continue to invest in marketing, which, as I mentioned, has been highest in the industry, and we'll continue it at that level.

Mitul Shah: And sir, lastly on off-highway in terms of what is our strategy and outlook in terms of off-highway growth point of view?

Arnab Banerjee: So off-highway -- yes, off-highway is following the same pattern, doing well in Latin America, US, growing in Europe but it could have grown faster had the recession not been there. The second point is we have decided to upgrade the product mix off-highway to steel radial also, very small portion of the off-highway tyres are steel radials now. A significant portion of that will be steel radial in the next 12 to 15 months, which will enhance the margin profile of the off-highway tyre exports.

Mitul Shah: Gaining market share is relatively tough or can we consider similar to other segments?

Arnab Banerjee: In off highway, you mean international markets?

Mitul Shah: Yes. Yes.

Arnab Banerjee: Yes. It depends on market access. To be very honest, we really don't look at -- we have a pricing strategy. If we have access to the market through a good distribution partner we can have the

volume plans met easily. If we don't have a very good distribution partner, whatever pricing we do, the market share will never come. So I think more important than pricing is the quality of distribution partner which is what we are focusing on.

Moderator: The next question is from the line of Vishal from Svan Analytical Instruments Private Limited.

Vishal: Sir, in terms of exports, we have seen that in nine months, we have grown by almost -- export revenue has grown by around 6%. Is this number correct, sir?

Arnab Banerjee: YTD, you mean?

Vishal: Yes, YTD.

Arnab Banerjee: Okay. I'll just have that checked. Meanwhile, if you have another question, you can ask.

Vishal: Yes. So going forward, what measures you will take to -- when you say that you will double exports in next two years, what measures we will take in terms of that will drive this growth? Which segment will drive this growth or which region do you plan -- you know -- think that will drive this growth?

Arnab Banerjee: So three regions: Europe, US, Latin America. Three categories: agri radial, passenger radial, truck/bus radial, to a lesser extent, but truck/bus radial also. And in some specific geographies, two-wheelers also. So that's the product market combination. What steps we are taking? It will require -- it will call for investment in new product development, which is very specific to the specific geographies. What sells in Europe won't sell in Lat-Am and vice versa. So that plan is already on. We have a 5-year road map for that.

Second is the consumer outreach in local markets, it will be initially mostly through the channel and through digital channels. So we are going to transfer our digital capabilities to these markets as well initially. And we are going to make investments like we have made investment in cricket. Likewise, if in Europe, it is going to be football, we'll go behind football. In US, if it is baseball, we'll go after baseball, but after we get a certain scale, not in the initial days. So it will be a replacement market play in these geographies for these products.

Vishal: Okay. Okay. Sir, what is the current regional mix in exports?

Arnab Banerjee: Okay. I'll go back to your first question, which I left unanswered. YTD value growth is about 14% Y-o-Y.

Vishal: Okay. Okay.

Arnab Banerjee: Yes. Your question was what is the -- yes, so it is fairly balanced. I think at this moment, the largest region will be Lat-Am. Lat-Am -- and it's fairly balanced. Lat-Am, Africa, Europe is also pretty big, US is small for us. US is a growing market. Only agri radial is selling there. Southeast Asia is small for us. So if you ask what are the top 2, 3 regions, then it is Lat-Am, Middle East plus Africa and Europe.

Vishal: Okay. And how do you plan that this will change over a period of next two years?

- Arnab Banerjee:** So US will be the big market that will come into the portfolio. As we launch the passenger radial and truck/bus radial, we would expect US to be as big or maybe bigger than Lat-Am or Europe.
- Vishal:** Okay. Okay. Sir, my last question is regarding after this OBR expansion where I think you will be expanding the capacity to 165 tonne per day, what is the next phase you are planning post that?
- Arnab Banerjee:** So we are currently at 105 tons per day, and we will reach about 160 tons per day in the next phase of expansion. We will focus on capacity utilization of 160. When we reach about 80%, 85% capacity utilization, we will plan the next phase. And the five-year road map for the product line up, etcetera, is ready. So we will trigger the next activity when our capacity utilization reaches a proper level.
- Vishal:** Okay. Sir, what -- can you share the five-year road map, some highlights on product planning as per -- on the OTR segment?
- Arnab Banerjee:** Yes. So a rough idea, the product planning is like this. We have about 700, 750 SKUs. We would like it to expand to about 1,500 SKUs. And we're not going to follow. We are going to leapfrog on the emerging segments.
- For example, there's a track, which is an emerging segment, so we jumped on to it. The emerging segments are very profitable in the first three to five years and then gradually when the volume increases, the profitability goes down. So that's more or less the plan because now we have got a significant exposure for sufficient length of time in Europe and also, to a lesser extent, in US.
- So we have -- we are catching those early opportunities and we are launching these number of SKUs. This year, we would have launched about close to 150-plus SKUs. So that's the plan we have a 5-year road map on that. Forestry is another area where we'll get into, for example. We have already launched some tyres in those range. So that plan is ready. The triggering of capacity will happen when utilization reaches a certain level.
- Vishal:** Great, sir. Sir, my last question, I know it will be too premature, but in the next five years, do we plan to reach this capacity of OTR somewhere around 500-odd PPD?
- Arnab Banerjee:** I wish it comes true. So we'll be very happy if we do that.
- Moderator:** There are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir.
- Arnab Banerjee:** No, thank you very much for your questions. I think the way you ask the questions; it helps us to look inwards and also raises some interesting opportunities in our mind. So thank you very much for the participation. I hope you are satisfied with our answers and see you again next quarter.
- Moderator:** On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.