"CEAT Limited

Q4 FY '25 Earnings Conference Call"

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MODERATOR: **MR. MIHIR VORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the CEAT Q4 FY '25 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the call concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone.

I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you, and over to you, sir.

Mihir Vora: Thank you. Good afternoon, everyone. On behalf of Equirus Securities, I welcome you all to the Q4 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 like to hand over the call to Arnab sir, for his opening remarks. Over to you, sir.

Arnab Banerjee: Good afternoon, and welcome to CEAT's Quarter 4 FY '25 Earnings Call. I'll be taking you through the business updates for the quarter, and then I shall hand it over to Kumar for his remarks on the financial performance. Post that, we'll open the floor for Q&A.

We continue to be bullish on the prospects of Indian domestic market, medium and long-term. With government investment in infrastructure development and changing habits of the customers, we expect the tyre market to grow at a CAGR of 6% to 7% in volume terms for a long period of time until 2047.

We expect exports to grow faster at about 10% to 11% long-term. We also expect the percentage of Indian exports to occupy more than 10% of global trade as a whole. Along with the industry growth, the focus on sustainability and eco-friendly practices is also shaping the future of tyre market.

Supporting this shift, the government's incentive schemes aims to boost electric vehicle adoption, and expand the charging infrastructure, which will accelerate the electric vehicle-specific tyres and propelling similar market demand. At CEAT, we are fully geared to tapping into this trend technology-wise and CRM-wise.

Coming to our performance for the quarter and financial year. In quarter 4, we grew robustly at 14.6% stand-alone basis. On a full year basis, in FY '25, our revenue stood at about INR13,218 crores, which is about 11% increase over the previous year. Stand-alone profit was about INR100 crores for quarter 4 FY '25, which is about 5% higher Q-on-Q basis.

Growth momentum continued in quarter 4. I have been maintaining that we're looking for overall double-digit growth for the year. In quarter 4, volume growth was 11%. Replacement grew with at high single-digit level, whereas OEM grew very strong double-digit, in fact, mid-20s. And we had a slight reversal in international business. We degrew slightly, because of ongoing global uncertainties, tariff and non-tariff barriers in quarter 4.

We remain attentive to these developments, and we'll continue to take appropriate actions, as international business is a focus area for us, as it is margin accretive. Overall, growth for the year in international business was in mid double digits.

Replacement grew mostly very well in robust manner in commercial vehicles, double-digit growth. In 2-wheeler segment was high single-digit growth and in passenger segment was mid-single-digit. So all across, there was a decent growth in replacement market.

In OEM, we grew both Q-on-Q and Y-o-Y basis, primarily due to growth across segments, whether it is passenger, where we have got approvals in new models with higher rim size tyres, which I've been talking about again. In the past, we had vacated high-volume 12-13-inch tyre models, and now we are coming back on 14-inch and upper models across vehicle owners.

In truck bus radials, our enhanced supplies from Chennai plant have enabled us to take a better position in terms of share of business in OEMs. We still are small players in truck bus radial and barely double-digit kind of share of business in OEMs. In 2-wheeler, we have a good share of business in OEMs, and we continue to build on that.

Quarter 4 volumes were up 3.5% quarter-on-quarter. As far as demand outlook is concerned, the same trends, which we are continuing and we have been talking about, continue into the first quarter of FY '26, which means, the urban demand continues to be soft, whereas the rural demand is definitely much more peppy. And there is a delta of about 4% to 5% in terms of demand level between rural and urban in most segments.

So this trend will continue and which means that with our extended distribution network into rural territories, we should be able to tap into rural demand better, especially for 2-wheelers and for farm tyres. Demand for passenger car tyres will be a little bit soft, because that comes primarily from the urban markets.

OEM-wise, we expect passenger demand to be low single-digit. 2-wheeler growth also may slow down, but there will be significant growth in 2-wheelers. And commercial vehicle growth may come back into positive territory as we go forward.

We have been able to partially mitigate the impact of raw material prices through minor price adjustments in quarter 4. We primarily adjusted price in 2-wheeler tyres in quarter 4, and we achieved a better product mix.

Looking at commodity prices, as we know that, crude prices were more or less stable across Q3 and Q4. Now, it is going down. And hence, crude-based raw material prices may come off their current levels gradually, more so into quarter 2 than in quarter 1. Natural rubber prices are still holding firm.

International prices have come down. So as a mix, we have seen very minor adjustments in Q4 over Q3. We'll continue to see flattish trend with minor drop in Q1 over Q4. And if there are significant changes, it will come at the end of Q1, more into Q2.

And going by past experience, we expect to hold the price line and our gross margins, which are currently at about 37.5% may see some improvement there on in Q2. As we have been saying that, we are comfortable with a gross margin of 40% plus more the better, and we are now at quarter 4 end at 37.5%. So there is some ground to cover.

As far as future trends are concerned, electrification, international business, premiumization and digital, we continue our journey to take tap into these opportunities. We are continuing to hold our position in terms of market share in OEM in 4-wheeler as well as 2-wheeler electric vehicle. And the visibility that we have on new vehicles getting launched with CEAT gives us confidence that we'll be able to maintain 20% to 25% share in both these segments going forward.

International business has been a key driver, and we have a new brand in the fold, which is Camso. We have not yet consolidated the results. We won't consolidate the results of Camso for another quarter. And starting quarter 2, beginning of quarter 2, we would be in a position to consolidate Camso results into CEAT results.

All the antitrust regulatory activities are now behind us. So integration work has started in full acceleration. As you know, it's a carved-out business. We have not bought an entity. So our focus will be in business continuity with 100% retention of customers. Initial few quarters shall go in stabilizing the operation, understanding the operation, and we retain our view of medium-term to long-term margin-accretive business as well as robust growth from the Camso acquisition.

Otherwise, also CEAT OHT continues to make steady progress. We got a few OEM additions, Argo, AGCO, Mexico, YANMAR, etc. Our forestry and agriculture product ranges, which have been launched recently, have given us encouraging response. Our NPD activity continues in full force. We have launched about 49-plus off-highway tyres SKUs in quarter 4.

For the immediate term, there is some headwinds in international business, as I mentioned, from Latin American markets where the currency has depreciated to a great extent, imports into that country has become more expensive, and we have been rendered somewhat uncompetitive.

The U.S. tariff situation has thrown some uncertainty into the market. And the rest of the markets like Europe, Middle East and Southeast Asia continue to hold firm and are very stable at this point of time.

Going back to Camso and Sri Lanka, the economy there is doing good. And it has been slapped with a 44% reciprocal tariff, as we know. As we have been engaging with the political dispensation there, including all senior ministers, including the Prime Minister, we are very hopeful of having, if not favorable, a much better situation emerging over a period of time than the 44% reciprocal tariff that we see today.

In fact, as things stand now, we are looking at a mere 4% tariff on the tracks business and in the worst case, 44% tariff in the tyres business. And we have a mitigation strategy thought through assuming the worst comes true, but we are pretty much sure and hopeful that the situation will emerge to a much better place than the 44% reciprocal tariffs that we see today.

On premiumization, you would have heard about launches of 3 absolutely top-class high-tech tyres, which is the Z-rated 21-inch radius for high-performance mobility. Here, this tyre can exceed and perform at 300 kilometers per hour. These are ultra-high-performance tyres, which cater to high-end vehicles offering superior grid control and stability at extreme speeds.

We have the CALM technology, which gives a very, very low noise tyre and goes well with the electric vehicle trend that we are tapping into. And we have launched the run-flat tyres, which is the first by any Indian manufacturer in India, which gives you the leverage to travel to a distance of 80 kilometers before you tend to the tyre after it has been impacted. So these premium tyre technologies will give us a fillip towards our premiumization journey as we go along.

In terms of innovation, we have had a 2-wheeler tyre, which is extremely high light. It may outlive even the vehicle. And we also have got an innovation award by the name of Golden Peacock Award at the IOD Golden Global Consumption 2025 for an innovative truck bus radial product.

We are proud to share that Chennai plant is the new lighthouse designated plant by the World Economic Forum. This is the second plant after Halol, which has entered the Lighthouse Group. This implies high productivity, higher efficiencies and lower cost as Chennai scales further.

On premiumization, we see the website traffic from high-end car users leapfrogged by 26%. Leads from premium SUV users increased by 33%. Brand positive sentiments moved up by 71%, with a 132% increase in average interactions per post Y-o-Y.

Our capex has been around INR950 crores for FY '25, and we expect the capex to be INR900 crores to INR1,000 crores in the coming financial year FY '26 as well. Happy to share that the S&P Global CSA ESG scores in that CEAT stands out amongst the Indian tyre manufacturers with an ESG score of 56. We have a long way to go, but 56% is a good place to start off with. Last year's score was 49.

CEAT is committed to set company-wide emission reductions in line with the science-based net zero standards, which is SBTi. Halol and Ambernath plant have received International Sustainability and Carbon Certificate, ISCC PLUS. CEAT has also earned ISO 2400 certification, highlighting our commitment to sustainable procurement and ethical sourcing.

Recently, we got ranked by EcoVadis, which is widely respected by our OEM customers. We secured a score of 71, which places us in the top 15 percentile of global companies. This will definitely give us a competitive edge in opening the doors in several OEMs globally.

In closing, as we look ahead, we are mindful of the evolving global economic environment, and we are actively adopting to the evolving needs of our customers, especially the premium ones. Our commitment to innovation, quality and customer-centric solution continues to drive us forward.

As we enter FY '26, we are also excited to bring Camso into the CEAT family and start a new chapter together. With this, I would 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 4 FY '25 earnings call. I'll share some further financial data points with you all, post which we can enter the Q&A session.

Coming to overall financial performance, we ended the year and quarter with some key milestones relating to revenue. Our consolidated revenue for the quarter stood at INR3,421 crores, delivering a year-on-year growth of 14.3%. Our full year revenue stood at INR13,218 crores, a growth of about 10.6%. The revenue for the year and also in quarter 4 was the highest that we have achieved till date.

This was driven by a combination of both volume and price growth. The replacement and international businesses delivered strong double-digit growth, while international business delivered high single-digit growth during the year. In quarter 4, OEM and replacement businesses continued with strong double-digit growth and IEM segment was flat.

Coming to operating margins. Our gross margin witnessed improvement of about 60 basis points quarter-on-quarter, largely driven by marginally lower raw material prices and selective price increases in some key categories like 2-wheelers and passenger. Within the perimeter of price elasticity of demand in the replacement segment, while the operating margin saw contraction of about 189 basis points year-on-year, primarily due to increase in raw material prices.

Our consolidated operating margin, that is EBITDA for quarter 4 stood at INR394 crores, translating to 11.5% margin, which is about 101 basis points expansion quarter-on-quarter. Coming to overall commodity markets and raw material prices. Unlike other commodities like steel, aluminum and other metals, the commodities that go into tyres in the global market saw a very high level, but stable during the quarter 4.

Contrary to our expectations, the international prices remained at $1,900 to $2,000 per ton level in whole of quarter 4, which is at a premium to local rubber prices around INR15 per kg. Local natural rubber prices remained range bound in the range of about INR190 to INR200 per kg during the quarter 4. In the last 3 weeks, as Arnab mentioned, the international prices have come off the peak and corrected by about $200 per ton.

And currently, international prices are trading at a discount to local natural rubber prices in the range of about INR7 to INR8 per kg, as local natural rubber prices have largely remained firm. Coming to crude, the crude oil prices were largely in the range of about $70 to $80 per barrel, except in January, where for a short period, it crossed $80. However, the crude oil prices have corrected a bit in April. It is currently hovering around $65.

The key crude derivatives like butadiene, caprolactam, CBFS prices largely remained constant in quarter 4. However, there has been some downward trend price movement in the month of April to the tune of about 2% to 5%. It appears that the crude oil prices would move in the range of $65 to $70 in the short term as OPEC has also announced some increase in production and is also supported by the U.S. government in pushing higher level of crude oil production.

The third lever that influences raw material prices is rupee. While rupee touched all-time low of INR88 to $1 in the month of March, it has appreciated since beginning of April and currently hovering around INR85 to USD1. We feel that the current depreciation of rupee or appreciation of rupee is largely due to depreciation of U.S. dollars against euro and its collateral effect on rupee.

Taking all of the above and all inventory levels, we expect quarter 1 raw material consumption cost to be at the same level as that of quarter 4 or maybe a percentage lower than that. We are keeping our inventory at the lower range of our normal covers to take advantage of any correction in the commodity prices.

Considering these factors, we continue to keep a close watch on the RM situation and see how it evolves over the next few quarters, but we expect them to remain within range.

Coming to debt, capital expenditure and working capital, we spent about INR235 crores on capex during the quarter, which is largely in line with the estimates that we had shared with you in the previous quarterly call. Our overall capex for the year was about INR946 crores in terms of cash outflow, and we capitalized assets to the tune of about INR1,140 crores during the year.

We are working towards incurring a capex, as Arnab outlined, in the range of about INR900 crores to INR1,000 crores in the year FY '25- '26. While our overall working capital remained negative, it went adverse to the tune of about INR98 crores in quarter 4, largely due to higher level of inventory and receivables by end of March FY '25.

We generated healthy operating cash flow, which was used to manage largely our capex requirement and part of our additional working capital. Our consolidated gross debt stood at INR1,928 crores, an increase of about INR95 crores over quarter 3. We are taking steps to bring efficiencies in cash flows further so that we are able to manage the additional requirement also out of investment where we need to fund for our acquisition of Camso business effective quarter 2.

Our debt-to-EBITDA on a consolidated basis stood healthy at 1.3x and debt to equity at 1.44x as of 31st March. Coming to operational expenses and employee costs. Employee costs marginally increased in quarter 4 over quarter 3, largely on account of higher headcount in manufacturing locations where capacities have been added.

With respect to operating expenses, we exercised strong controls on all our expenses in quarter 4 that helped us to bring down operating expenses as a percentage of turnover by about 40 basis points over the previous quarter, despite incurring additional costs towards IPL in quarter 4 versus quarter 3.

Our end-to-end cost reduction programs covering all elements of cost helped in delivering sustainable and significant cost benefits to the tune of about INR180 crores during the year. In the coming year, we will leverage scale and continue to focus on eliminating wastages and improving efficiencies to positively contribute to our margins.

During the quarter, we also announced a voluntary separation package for one of our older plants that led to more than 100 employees accepting voluntary retirement schemes that we had announced, involving about INR37 crores of cost that has been shown as an exceptional item in our financial statements.

Depreciation marginally went up in quarter 4 versus quarter 3 on account of higher capitalization of assets. Interest cost marginally went up in quarter 4 versus quarter 3, largely on account of increase in our debt, which I just now explained.

During the quarter and the previous quarter, Reserve Bank of India announced reduction in repo rate to the tune of 50 basis points, aggregating to reduction of 25 basis points each. The same has not been reflected in the MCLRs of banks. The interest rates have seen some corrections in the short-term government bonds as well as treasury bills. We expect the interest rates to soften progressively as we see improvement in the overall liquidity.

Overall, our consolidated profit after tax for the quarter stood at INR93.23 crores, which compares favorably against INR91.61 crores in quarter 3 of the current financial year FY '24-'25 and INR92.87 crores in quarter 4 of the previous financial year. And during the year, the company delivered a profit of INR449.56 crores, which compared to INR614.48 crores in the -- on a full year basis in the year '23-'24.

Profit for the current year translates to an EPS of INR116.84 share value of about INR10. We are pleased to also announce that the Board of Directors in the meeting yesterday recommended a dividend of 300% for the financial year 2024-'25, which translates to INR30 per share. The dividend would be paid post obtaining the formal approval of shareholders. Thank you once again.

We can now open for Q&A.

Moderator: Thank you very much. The first question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Congratulations on the healthy growth performance. Sir, firstly, on the growth side, we have seen a very good market share gains last year. For next year also, how do you see the OEM growth, where in particular, how do you see the CV segment growth, sir?

Arnab Banerjee: CV was in negative territory, as you know this, in FY '25. So we expect CV to be in OEMs, the vehicle growth to be in single-digit. It should be in a positive territory basis the information that we are receiving. And our play will be -- we are a small player in TBR. So our play will be in just about double-digit kind of share of business for that growth.

Mumuksh Mandlesha: Got it. And sir, on the exports market, you mentioned some of the challenges there. So how do you see next year growth for that exports market? And also, sir, can you give an update how is the OHT segment in Europe doing, sir?

Arnab Banerjee: OHT segment has been facing headwinds since last 2 years, if you see last 7-8 quarters, definitely, primarily from the OEM segments. We have an OEM play there and OEM margins are not significantly different from the aftermarket.

So, we have been making this up with an aggressive play in the aftermarket. And in Europe also, that holds true. The OEM demand is showing signs of revival, but it's not yet in. So the headwinds are still there, and we have to rely on growth on -- through aftermarket for some more time.

Mumuksh Mandlesha: And sir, on the Camso part of the business, compact segment, how is that market doing sir, generally, sir?

Arnab Banerjee: It is the same situation. Overall, OEM is sluggish, which is the construction tracks and tyres. But aftermarket is relatively better and the performance in aftermarket is steadier. And then the OEM. OEM demand should come back in some time. As I said, green shoots are visible, but not yet in.

Mumuksh Mandlesha: And sir, on overall export side, will there be a growth for next year, sir?

Arnab Banerjee: Yes, we are definitely planning a growth in Europe, in Latin America, things have to turn around. The currency situation has stabilized. Southeast Asia, Middle East, those are our traditional areas. We will see growth there. So we are definitely planning growth in international business as well as in OHT part of the international business. So overall, we are looking forward to growth apart from Camso.

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

Siddhartha: Congrats on a great set of numbers. Sir, first question is on the replacement side. Now can you sort of highlight if the industry growth has been similar or there has been market share gains for us as well? And what will be it for 2-wheelers and passenger car in FY '25? And going ahead, how do you see the scenario? Will it be more steady? Or do you still see some scope of market share gains for us?

Arnab Banerjee: Yes. I would first share the market share status. So year-on-year, we have seen good gains in truck bus radials. But as I mentioned in the context of OEM in aftermarket also, we are small players. We are still in single-digit market share. So on a small base, good market share gains.

Good gains in 2-wheeler where we are market leaders and both in motorcycle, scooter, scooter market itself is growing very well. But both in motorcycle, scooter, we have seen significant gains over 1-year period.

In passenger car tyres, we have had a flattish kind of situation where we have neither lost nor gained the market share in aftermarket. As far as demand is concerned, 2-wheeler, which is penetrated across the POP's data, we'll see a stronger demand in rural market is what we think. Passenger, which is relying more on the 50,000-plus population town, will see softer demand. And truck bus radial is steady. The GDP is growing at around 6% or thereabout, the demand is also going to be around that or slightly lower, maybe mid-single-digit.

Siddhartha: Got it, sir. Sir, second question is on the export strategy. Now I think you had indicated that we will enter probably the U.S. market from quarter 2 onwards with the TBR range and all. So any change to that plans, whatever you had, how much do you think we can contribute or get from

U.S. market in FY '26 given the current scenario now? And in the longer term also, you had a target of touching 25% from exports by in the next 1, 2 years. So where does some of those targets stand given the current context?

Arnab Banerjee: Correct. So I'll answer one by one. With the integration of Camso right away in FY '26, we'll hit the target of FY 26, 25% saliency of international business. Number two, in the current tariff situation, there is -- the key thing is uncertainty, right? None of us really know where the dust will settle. But as far as I'll clarify on the tariff, I'll take this opportunity to clarify on the tariff situation, what is our reading.

India is not marginally uncompetitive, if situation remain as it is. So vis-a-vis our key competitors from Thailand, Vietnam and China, we remain slightly competitive, or if the auto component tariff of 25% applies uniformly, we are neither competitive nor uncompetitive.

As far as Sri Lanka is concerned, 44% is a big burden. But as we see that in tracks, probably the tariff is already down to 4%. In tyres, if it is 44%, then 28% or 30% of our business is from Sri Lanka to U.S. that risk has to be mitigated, and we have a mitigation plan, which I may share maybe later on. So that is a tariff situation overall.

At this moment, if everything is as bad as it is today, our exposure to U.S. is in low single-digit. So therefore, whatever we do, the material impact to our numbers will be very, very minimal in FY '26. Having said that, U.S. is a key investment market, a key growth market for future. We believe that these things will sort themselves out. So our investment plan in terms of product development, product launches in U.S. market in OHT, PLT as well as truck bus radials will continue as usual.

Siddhartha: Got it, sir. Sir, lastly, on this Camso, just a clarification, either the tariff is 25% in auto parts or it is a reciprocal tariff of 10%. So does this 44% tariff apply? Because as of now, I think that has got delayed.

Arnab Banerjee: You're right. Reciprocal tariff has been postponed for 90 days. After 90 days, if it is not postponed again, then a 44% reciprocal tariff is applicable on Sri Lanka. This is the current situation.

On tracks, as I mentioned, it has already been reindexed to 4%, not 44%, 4%, which is 50% of the business. And the other 50%, 44% may apply as things stand now. But with the indications that we have got by interacting with the local government officials as well as Michelin, which has got other business interest in Sri Lanka. So they are also working hard at Washington. We understand that things may resolve out to be better in the future.

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

Mitul Shah: Congratulations on a very strong performance, particularly in this tough environment, having double-digit volume growth. Sir, my first question is on clarification on this Camso business to U.S., you indicated 30%. So that includes both tracks and tyres or only tyre related? Or if at all, then how much would be the only tyre from this 30% out of this 30%?

Arnab Banerjee: It's total. Tracks and tyres are roughly half and half, so 15% and 15% roughly.

Mitul Shah: So effective this 40%, 44% impact would be only on the 15% of the overall business of Camso, right?

Arnab Banerjee: As we speak now, things are very dynamic. Things are changing by the day. Yes, as we speak now, that is the impact.

Mitul Shah: Sir, now my question is on the average realization in export geographies, considering the slightly favorable currency movement as well as a few price hikes we have taken on the last 1 year. So on a Y-o-Y basis or Q-on-Q basis, how -- what was the average realization per ton basis in these geographies, blended average?

Arnab Banerjee: So on Y-o-Y is not very relevant. On a Q-o-Q basis, we have seen a realization growth in excess of 2% in quarter 4 over quarter 3. And if you can manage the mix, then we would like this realization growth to continue quarter 1 over quarter 2.

Mitul Shah: Yes. So despite this volume-related challenges, we are able to increase the prices by 2% in export, right?

Arnab Banerjee: Not necessarily prices. It's a mix of price plus volume mix.

Mitul Shah: Okay. And sir, lastly, again, on the same similar strategy for considering next few quarters of challenges, what would be your pricing strategy? Whatever benefit from this lower RM basket to pass on or we'll try to maintain pricing or margin benefit?

Arnab Banerjee: And if the RM basket comes down, definitely, the price lines will hold. And when the prices were going up, we were unable to pass on the entire effect to the market. So I am pretty sure that we will hold the price line as the raw material prices taper off. And if they take time to taper off, we'll also be open to looking at some opportunistic price increase in the meanwhile.

Mitul Shah: Sir, geography-wise, can you give any color that over near term first half, maybe which geographies you think will decline in absolute terms and which geography can still continue to grow? The overall market seems to be challenging, but any geography you see decent growth coming in?

Arnab Banerjee: If you're talking about international markets?

Mitul Shah: Yes, sir.

Arnab Banerjee: Yes. So we have stable business and growth in European Union, Middle East, Southeast Asia. We have headwinds in Latin America and North America. Barring that, it is business as usual in most geographies.

Moderator: The next question is from the line of Amar Kant Gaur from Axis Capital.

Amar Kant Gaur: I had 2-part questions. One is related to Camso. Correct me if I heard it right, your exposure via Camso to U.S. is about 30%. Is that correct?

Arnab Banerjee: Yes, correct.

Amar Kant Gaur: Yes. So sir, I just wanted to understand a little bit in terms of the compensation that we are paying to Camso, would there be any component that is withheld or that is dependent on the performance in the next maybe 1, 2, 3 years?

Arnab Banerjee: No, nothing is related to performance or anything. There is some deferred compensation, but that's for the brand. And the stocks that we will take over at various points of time. Not everything is paid on day 1, but there's no correlation to the volume in every quarter or something like that.

Amar Kant Gaur: Understood. And sir, second question was on the other expenses. We have seen other expenses remaining flattish versus typically, we have an increase because of the marketing expense that we have, IPL related and otherwise. So what is preventing these -- I mean, not a significant increase we have seen in other expenses, 4% kind of Q-o-Q increase in revenue, while other expenses have only gone up by only 1%?

Arnab Banerjee: Yes, Kumar?

Kumar Subbiah: See, other expenses, this is one program that we have been running in terms of bringing efficiencies across all cost lines, okay? Generally, it is reflected. There are 2 line items where you'll be able to see that impact. One, obviously, on the raw material cost on all programs that we have undertaken to bring efficiencies in raw material costs, either in the buying or in reducing wastages in our factories, okay, or any other programs that has led to reduction in raw material costs.

What you see largely in other expenses is programs on utility costs, programs on factory-related costs, programs on supply chain-related costs. So broadly, despite the fact that revenue has grown quarter-on-quarter by about 3.6% even after adjusting for IPL expenses, we kept all our other costs either constant or lower than the quarter 3, so which is what you are seeing it.

There's no, nothing exceptional about it in terms of there's no onetime cost benefit or onetime cost impact in the previous quarter for the purpose of comparison. It's largely the programs that we are doing. Our endeavor is to keep it at this level. If you look at it same period of last year also, we were around INR660 crores level, okay?

And even the quarter 3, we are about INR655 crores. So we would like to be at this level, even if we have to incur some IPL-related expenses, which would spike up in a particular quarter. In those quarters, we try to keep other expenses a little lower so that overall costs remain within this range.

Amar Kant Gaur: So would it be fair to assume that with some of the marketing expenses built into this quarter, these numbers would likely on a steady-state basis, those IPL expenses notwithstanding would be slightly lower than these on a steady state going forward?

Kumar Subbiah: Quarter 4 IPL duration was small. So obviously, small period-related IPL costs can be mitigated through strong controls and other elements of cost. But in quarter 1, where we have longer period

IPL, where a reasonable portion of our marketing expenses is tilted towards IPL. It will not be able to bring it at par with the quarter 4 or quarter 3. So that you will see some spike in other expenses, particularly marketing expenses in quarter 1.

Moderator: The next question is from the line of Naveen Baid from Nuvama Asset Management.

Naveen Baid: Congratulations on a very good set of numbers. I'm not sure if you have spoken about this, but what was the overall volume growth for this quarter and for the full year?

Arnab Banerjee: Well, exact guidance, we normally not share, but we are definitely looking at.

Naveen Baid: No, no, the quarter gone by?

Arnab Banerjee: Sorry, my mistake. So for quarter 4, you mean, right?

Naveen Baid: Yes, for quarter 4 and for full year?

Arnab Banerjee: Yes. So quarter 4 growth has been 11% -- so total quarter 4 has been 11% volume.

Naveen Baid: Volume growth?

Kumar Subbiah: Yes. Volume growth.

Naveen Baid: Okay. And for full year?

Kumar Subbiah: And full year, it is about 8.5%.

Moderator: The next question is from the line of Vijay Kumar Pandey from Nuvama.

Vijay Pandey: I just wanted to understand about the employee expenses. So it has gone slightly up on Y-o-Y, like, as compared to last year on full year level. So just wanted to understand what is driving this? And despite, like, we have a like -- despite the VRS team, this has gone up, is it like something related to VRS cost? Can you just give some light on that?

Kumar Subbiah: Okay. I'm sorry, could you -- you want to understand about VRS and other expenses? Can you repeat your question?

Vijay Pandey: The employee benefit expense and the VRS expense?

Kumar Subbiah: Okay. So VRS cost is what we are showing as exceptional item, okay. We incurred about INR37 crores during the quarter 4. We announced separation package in one of our factories, where a little over 100 people took accepted VRS. So therefore, that we are showing separately.

With respect to employee cost moved up on quarter-on-quarter by about INR10 crores. INR215 crores was quarter 3. Quarter 4 was INR225 crores. All of that cost increase in employee cost can be attributed to additional manpower costs incurred in our factories where we have had capacity increase. For example, in Chennai factory, we commissioned our truck and bus radial plant in September, which we are scaling up. So therefore, in quarter 4, we had to engage more people.

Similarly, the volume growth number that we are talking about in quarter 4, 11% kind of volume growth happened, all that had been produced. So these are directly relating to production activity. That cost was incurred in quarter 4, which is the reason as to why quarter 4 was about INR10 crores more than quarter 3.

With respect to other expenses, I think I've already explained. So unless you have any specific questions, I think other expenses have been explained to you.

Vijay Pandey: Yes, that's okay. And sir, can you give a brief about the equity JV income because that has come down on a year-on-year level for full year. So just wanted to understand what is driving that?

Kumar Subbiah: No, debt to equity, see...

Vijay Pandey: No, sir, the JV income. JV income, profit from JV.

Kumar Subbiah: Your consolidate that share of profit, which is it?

Vijay Pandey: Yes. Share of profit of associates and JV.

Kumar Subbiah: See, it's more or less in line, okay? This year, in fact, is higher. Share of profit this year is about INR21.8 crores versus INR20.8 crores the previous year, okay. And the share of profit is largely the JV venture that we have in Sri Lanka. We don't consolidate it with our results. So this is our share of profits. It has seen an improvement of about INR1 crore, okay? Even in the quarter also, there's a marginal improvement by only about INR5 lakhs quarter-on-quarter, but year-on-year, about INR1 crore higher.

Vijay Pandey: Okay.

Kumar Subbiah: Yes, you look at full year basis, unless you're comparing quarter 4 of last financial year versus quarter 4 of current financial year, okay. But I think the right comparison is full year, full year or quarter 3 to quarter 4, where you would see some kind of stability.

Moderator: We will now begin the next question from Ankur Poddar from Svan Investment.

Ankur Poddar: Congratulations on great set of numbers. Sir, my question is regarding the realization for FY '25 on the overall basis have increased by around 2%, while the RM basket has increased by around 8% to 10%. So there is roughly an under recovery of around 6%, 7-odd percent. So do you plan to have a price increase in near term? How do you plan to mitigate this kind of your thoughts on that?

Kumar Subbiah: See, increase in raw material as a percentage of turnover when we began the year was close to about 60% of our revenue. So when we say, raw material has moved up by 8%, okay, the impact of that on sales is about 60% of that 8%, okay? So that's the way we need to look at. And our realization has moved up by maybe a little over 2%, both through price increase as well as through mix.

And the difference is what is the difference between the impact of raw material costs, okay, and the realization part of it and which is evident in the gross margin also, okay. But we should also keep in mind, in the previous year, we had a very high level of gross margin improvement also, significant improvement in gross margin, which is why our overall operating margins went up by more than 4% in 2023, '24 versus '22-'23.

And so on a high base of about 43% kind of a gross margin, okay, and maybe the gross margin has shrunk by about 4.5%. And I think Arnab also earlier mentioned in response to one of the questions. Currently, our gross margin is -- in his opening remarks, hovering around 37.5%. Our endeavor is to take it up to in the range of 40% to 41%, okay? And we will do that using both the levers, one of them being like any correction in raw material costs from here on would be retained.

And second is obviously judicious price increases across depending on the categories, geographies and segments. Both of them will happen so that we get back to a normal level of gross margin and normal level of operating margins.

Ankur Poddar: Fair point, sir. Sir, my second question is regarding our export strategy, as Arnab already said that we'll be clocking around 25%-26% after Camso integration. What is your strategy to scale up the export business from here on for the CEAT as well as Camso in terms of which geographies you want to venture, what kind of products? Specifically with Camso, if you can throw some light your broad business plan in terms of scaling up the Camso operations from here on?

Arnab Banerjee: Right. So when I said 25%-26%, it is at current level of Camso business, which utilizes the facility that we are purchasing at the level of 50%. So our endeavor is to take the capacity utilization to 80%- 85%. So that much headroom we are looking at. In what time period, obviously, in medium-term, which is about 2 to 3 years, but the first year will go in understanding and consolidating business continuity retention of customers.

So, not much may happen in the first few quarters. So, that could lead to that much kind of growth with some inflation, maybe almost 2x of the current volume or 1.7x-1.8x of the current volume. So that's Camso.

On the non-Camso part, we also have Ambernath plant, which is now utilized up to about 65%. So about 35% headroom is there in Ambernath. Plus we are expanding Ambernath as this is our topmost priority of growth to about 150 tons per day.

So we can -- in a reasonable time period, if the OEM volumes come back, we can double Ambernath volume in some time period of maybe 3 to 4 years to 5 years maybe as well. So that's the export growth on OHT of CEAT and Camso. And of course, we have headroom for growth for OTRs as well as bias OTRs from the Bhandup plant as well.

Now, coming to passenger and truck bus radial, here, we have aggressive plans in Europe. And U.S., there will be some headwind unless this uncertainty is sorted out. Current impact is very low, as I explained earlier, because our exposure is very low. But it is an investment market, and we'll continue to invest in this market and in Latin America as well.

And for 2-wheeler categories and passenger categories in some select markets in Asia as well. So there is a well laid out plan. Camso, to answer your question, will go primarily to North America and Europe. Most of the business will come from there, about 90%.

Ankur Poddar: Okay. Great, sir. My next question is to Kumar, sir. What are our plans regarding post the Camso acquisition, there will be a fair amount of increase in the debt level. So any medium-term plans? How will you kind of scale down these debt levels, if you can share your thoughts?

Kumar Subbiah: Okay. See, currently, as of 31st March, our debt was about INR1,922 crores. That was the level of debt. And if you were to look at from leverage ratios point of view, it is about debt equity is about 0.44 and debt to EBITDA is about 1.3. So low level of leverage, that's the way one can come to a conclusion.

With respect to the current level of leverage, while the debt might go up because the scale of operation is also increasing, overall as a company is also growing, overall absolute EBITDA also, we are almost delivered INR1,500 crores EBITDA in the current year. And last year was maybe INR1,650 crores of EBITDA.

So in absolute terms, everything has moved up. So therefore, debt should be seen in the context of leverage ratios. So our understanding is that it's not that entire consideration of $225 million will have to be invested upfront, okay? So at least about 20% of that we will be paying after 3 years, 3 to 3.5 years. Some amount of consideration is relating to finished goods inventory that will also not happen upfront. It will happen over a period of time as we take possession of those goods in different markets.

So since the cash is fungible, okay, and we are generating cash profit of INR1,000 crores plus even in the year FY '24, '25, our cash profit was about INR1,080 crores.

So we have to decide whether we want to keep the debt low even on a ratio basis or whether we want to keep debt at normal levels, and help the business to grow through investment, not only in this acquisition, but also in capacities so that we are able to deliver growth. I think, the growth of 14.5% in quarter 4 was delivered because we had capacities available to meet the sales growth. And scale does play a role, very important role for the tyre industry in terms of distributing the fixed cost.

So coming to your larger question, it's possible that debt can move up in terms of debt equity, debt-to-EBITDA ratio from current 1.3 level to maybe at 2.2 or 2.3. Maybe the peak in a very bad quarter could be 2.4-2.5, which is far lower than where we were even 2 years back. We were debt EBITDA was closer to about 2.8-2.9, that kind of a level. That's the way we see.

As we integrate the business, as we generate more cash, the absolute debt and there will be some improvement in overall debt EBITDA, which would translate to maybe INR3,000 crores up to INR3,000 crores kind of debt level over a period of time. Internally, we would try to keep it below. But that's the way we see the debt movement over the next 12 months.

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

Mitul Shah: Yes. Sir, my question is again on the Camso side in terms of the -- apart -- we have enough capacity, but apart from that, any strategical investment required in terms of the increasing the network, or what could be the ballpark investment, or capex requirement even considering the maintenance capex from annual point of view?

Kumar Subbiah: Okay. No, look, from our point of view, beyond what we -- the $225 million, which encompasses a lot of other elements in the acquisition of that particular business. We may have to add some key upstream equipment, at least 2 of them in the next 12 months, after 12 to 18 months after we acquired the business, okay.

Our -- to fund that -- to take care of that and plus normal maintenance capex for Camso business in Sri Lanka, maybe we need about Indian rupee terms, possibly about INR100 crores to INR125 crores per annum for the first 2 years. That is the way we see in terms of requirement.

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

Siddhartha: Sir, one question on your margins in various segments because like we have pushed a lot in OEs still we have not seen any meaningful margin impact. So how should we think about the difference in margins between your replacement OE and export markets. Some sense there, sir, will be helpful.

Kumar Subbiah: See, look, among all 3 segments, OEM margins are a little lower, okay, and which is where our overall revenue share is about 28%, 29%, okay? But having said that, OEM business also gives us some cost protection during the period when we see high volatility in prices or high upward trend in prices, because we have a mechanism to adjust to any movement in raw material prices with a 1 quarter lag.

So for us to grow in the replacement market, it is important that we have a reasonable presence with OEMs. So in general, in terms of margin distribution, in the normal circumstances, international business and replacement business, operating margins are at similar levels. Gross margins, replacement could be a little higher, but we also need to invest in marketing and therefore, at the operating margins level is similar.

In case of OEM business, while operating margin vary depending on the categories, for example, our 2-wheeler margins would be a little better. But in passenger car, where we are penetrating into high-end tyres, et cetera, it could be lower. So operating margins of OEM business could be lower in mid-single digits versus replacement and experts at a high level.

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

Kumar Subbiah: Thank you very much for attending the earnings call and being with us through FY '25. Looking forward to you being with us in FY '26. Wish you all a very good financial year in FY '26. Thank you.

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