Management Discussion

Ronak Mehta - Analyst, ICICI Securities Limited
Thank you, Yashasri. Good evening, everyone.On behalf of ICICI Securities, we would like to welcome you all to CEAT's Q2 FY '27 Earnings Conference Call. Today, we have with us from the management team, Mr. Arnab Banerjee, Managing Director and CEO; and Mr. Kumar Subbiah, Chief Financial Officer. We will start the call with brief opening remarks from the management team about the quarter gone by, and then we'll proceed to the Q&A session.Thank you, and over to you, Mr. Kumar Subbiah.

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Good afternoon, everybody, and welcome to CEAT's Quarter 2 FY '27 Earnings Call.I'll be taking you through the business update for the quarter, and then Kumar shall have his remarks on the financial performance. Post that, we'll have the Q&A. I also have Amit Tolani, who heads the OHT division in CEAT along with me. If you have any questions on CAMSO, he can handle them as well.So moving on, during quarter 2, structural consumption tailwinds triggered by last year's GST reforms continued to anchor domestic volumes. On the input side, however, we still continue to face sharp cost inflation. During Q2, further raw material cost increase was around 8% to 9% over Q1. This is in addition to about 15% increase in Q1 over March exit prices. And Q3 RMC will also be about 3% higher than Q2. Thus, by December, total increase will be 27% over March exit price. Our gross margins have been stagnant at around 33.6% and behind our comfort zone of 7% to 7% more gross margin that we would like to operate with. This, coupled with further raw material price hike expected in Q3 calls for more price hikes in all segments in quarter 3. We maintained a tight grip on all cost elements, which resulted in an EBITDA of 10.1% in quarter 2.On the demand side, while the near-term structural anchors remain supportive, demand may moderate during Q3 on the back of a higher base over previous year, El Nino effect and recent reported increase. In the near term, we expect replacement demand to be led by 2-wheeler segment, where demand is still strong, and more so in rural markets. MSCV growth is expected to be mid-single digits. In passenger, there is some concern about growth, maybe low single digit. In OEM, demand is still holding strong across categories, which could moderate Y-o-Y because of high base effect. Farm production seems to be tapering off due to lower demand post monsoon deficit. In international business, recovery has been strong on the back of demand revival in Africa and LatAm.Segments that are witnessing good demand are two-wheeler and commercial vehicle. However, freight rates and elongated and unpredictable transit times are a challenge to handle. Sales to Middle East, although improving, still remains impacted. Q2 witnessed robust performance with a strong revenue growth, a growth of about 23% Y-o-Y on a stand-alone basis and an underlying volume growth of close to 10%. Stand-alone EBITDA in Q2 stood at INR461 crores. Growth momentum continued during Q2 over last year, 23% value growth. Replacement segment grew in mid-teens, while both OEM and IB segments grew in high 20s. Overall growth in CV, four-wheeler, two-wheeler, farm were all in excess of 20% or strong double digit. Replacement growth was led by two-wheeler and commercial categories, while growth in two-wheeler was muted.Saliency of premium two-wheeler and four-wheeler grew in replacement. OEM grew handsomely in all categories led by strong demand, and we enhanced our fitment in premium vehicles and EVs in OEM. Growth in IB was strong across categories in the high 20s and even 30s for some segments. For CAMSO, business transition is nearly complete. About 85% of the customers have come to CEAT's fold now with sales being directly made to them. We expect to complete the balance transition by quarter 3. Alongside the customer transition, we have

now set up local entities in US, Canada, UK, France, Germany and Poland, which helps us serve customers in this market locally rather than as an exporter from Sri Lanka. In Q2 '28, we will have control over the entire CAMSO value chain right from raw material procurement to end customer servicing and the project to install upstream equipment in the Sri Lankan plant is running on time.That makes FY '28 the first year of CAMSO running entirely on CEAT platform, and we expect the margin benefits of the integration to start showing up. We have gross margin visibility to the extent of 50% to 55% in CAMSO. Capacity utilization in the Sri Lankan plant is less than 50%, leaving headroom for growth. Half 2 volumes in this financial year are expected to grow by 20% plus on half 1 actual volume base. This business is close to being EBITDA positive in half 2, and we expect this business to be EPS accretive at consolidated level by FY '29. We are taking steps to eliminate the mark-to-market losses or gain on the US dollar loan component from CEAT India to Sri Lanka, and we shall keep you informed about the execution of the same by end of next quarter.Continuing our comments on key trends of electrification, international business, premiumization, and digital and AI. In electrification, on the electrification platform, during Q2, we maintained leadership with 25% share in OEM PCUV electric segment and strengthened the two-wheeler EV share to beyond 30%. International business saliency in Q2 was approximately 20% on a stand-alone basis. On consolidated basis, it was 24%, which includes CAMSO turnover, which is fully international. We have a plan to take it to 33% at total CEAT level in 5 years. In quarter 2, OHT business delivered its strongest ever quarter, registering strong growth Y-o-Y, up by about 30% plus. This was despite headwinds from elevated ocean freight rates and continued increases in raw material costs, which put pressure on margins. During Q2, we added 21 new off-highway SKUs as well.In the on-road tires business, growth was robust with improving realization. Segment registered mid-20 growth during Q2 on a Y-o-Y basis. Europe, LatAm, Southeast Asia business growth has been good. However, record freight rate increases and difficulties in container availability continue to be the challenges. Premiumization. Q2 saw multiple launches in two-wheeler and passenger car market with premium offerings, in higher rim sizes, in off-roading applications, and in certain niche sizes. CEAT's overall sales volume of premium passenger tires, which we define as 17-inch plus rim size tires, registered high growth on YTD basis, mid-30s. Our two-wheeler premium portfolio comprising of motorcycle steel radial, fabric radial, and tires for 250cc plus bikes also grew handsomely, registering high mid-teens growth. Digital and AI.At CEAT, we are scaling up AI adoption through a portfolio of top management-led initiatives across key business functions. During the quarter, functions advanced the use of AI and analytics for predictive insights, proactive anomaly identification, process automation and faster decision-making across sales, finance, manufacturing, supply chain and other areas. In parallel, our enterprise data lake project is progressing well. Our SAP RISE project also continued to advance as per plan. During Q2, premium tire sales through leads grew by 1.2x, while overall four-wheeler tire sales through leads grew by 36% over the same period last year. Positive sentiment for the brand moved up by 37% Y-o-Y. Tariffs by US Applicable duty on auto components remain at 25% plus the original 4% tariff.So on-road tires, including truck, bus, radial, and passenger car tires continue to fall under this category. Off-highway tires are subject to lower 10% global tariff. So OHT tire exports from Sri Lanka also attract the same 10% duty. For tracks, the applicable tariff is 10%. However, the metal component of tracks, which is primarily steel, continues to attract a higher tariff of 25%. Sustainability remains a key driver of innovation, efficiency and long-term value creation at CEAT. We have improved logistics efficiency, reduced inbound transport intensity, and we have successfully deployed LNG-powered trucks for natural rubber transportation.We have also begun

working with suppliers to increase adoption of alternative fuel vehicles across our supply chain. Our commitment to sustainable products was recognized with the Gold Award from the Indian Society for Quality for CEAT Circl 90, India's most sustainable passenger car tire.With this, I would like to hand over the call to Kumar for his remarks.

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
Thank you, Arnab. Good afternoon, ladies and gentlemen, and thank you for joining our Q2 FY '27 earnings call. I'll share some more financial data points with you all, post which we can enter the Q&A session.First, overall financial performance. Our consolidated net revenue for the quarter stood at INR4,762 crores, which is with a year-on-year growth of about 26.2%. The revenue that we delivered in Q2 was the highest ever. This was aided by a combination of both strong volume and price growth. On a year-on-year basis, approximately 40% of the growth came through volumes and balance came through positive price and mix.As regards pricing, similar to quarter 1, pricing impact was positive across all segments. During quarter 2, OEM and replacement segments led the upward pricing readjustments. So far, replacement has been receptive of our pricing actions, where demand is still holding strong. We have effected approximately about 12% to 13% kind of a price increase from the beginning of the current financial year till end of September in replacement and about 14% to 15% in OEM segment from the beginning of the financial year until date. We still have some gap to bridge vis-a-vis increase in raw material costs that will be addressed in due course.Coming to operating margins. Our consolidated EBITDA for quarter 2 stood at INR452 crores, translating to 9.5% of the revenue. It's an expansion of 94 basis points sequentially and a drop of about 403 basis points versus quarter 2 of last year. While our stand-alone margin was about INR461 crores for the quarter, translating to a margin of 10.14% of revenue during the quarter, an improvement of about 101 basis points Q-o-Q and a drop of about 356 basis points. The drop in gross margin versus the previous year of the same period is mainly on account of increase in raw material costs in the last 6 months. Our consolidated gross margin for quarter 2 stood at 34.6% and expanded by about 66 basis points sequentially, helped by other operating income and increase in realization. The drop in margin, as I mentioned, is largely on account of raw material costs versus the last year.Coming to raw materials. During quarter 2, crude oil prices continued to remain at elevated levels. While it averaged at lower level in the beginning of the quarter, that is in July, to around $84, $85. But ever since ceasefire deadline expired in mid-August and re-escalation started, towards the end of August, the crude has been hovering around $100 per barrel. As we speak, the crude continues to hover around $105. As we speak, due to increase in crude premium, the crude derivative prices, which go into tires, moved even higher than the movement in crude prices in the quarter 2.Natural rubber prices followed a similar trajectory during the quarter with the international benchmark that is Singapore Commodity Exchange starting quarter 2 at around $2,200 per tonne, but since then moved to around $2,600 level. In line with the movement and following price parity, domestic rubber prices also remained elevated and is priced currently at around INR285 per kg, which is a 20-year plus high and continues to remain strong even in the current market conditions. Recent sharp movement in international natural rubber prices has, in a way, also closed the gap with the local prices. Earlier, the international prices were at a discount to local prices. Today, it is more or less in parity with the local prices.Coming to rupee, while recent intervention package announced by Reserve Bank of India has pulled back some of the negative sentiment and hence, it remained within a range, leading to a limited impact on our costs during the quarter. So overall, as guided in our quarter 1 call of our raw material costs for quarter 2, the raw material prices surged by about 8% to 9% quarter-on-quarter compared to quarter 1.Moving into quarter 3, the pressure is expected to

persist as commodity prices continue to remain high, and it is expected that raw material cost would move in the range of about 3% to 3.5% in quarter 3 over quarter 2. We hope and we look forward to finally West Asia war comes to an end, which should bring the commodity prices back to the normal levels.Coming to capex, we spent about INR493 crores during the quarter on stand-alone operations. That includes approximately about INR120 crores plus in Nagpur plant as part of our capacity increase from 80,000 tires to 100,000 tires a day. And approximately about INR280 crores in Chennai was towards expansion of our truck and bus radial and passenger car tires capacity. Our capacity utilization continues to be high, particularly in two-wheeler and truck and bus categories, and the capex that we front-loaded in the first half of the above would help in meeting our demand in the coming quarters. For our overall capex, both growth capex plus our normal maintenance capex, including R&D, we aim to manage it in the range of around INR1,400 crores as we guided in the earlier quarters.Coming to working capital. On a stand-alone basis, our net working capital increased by about INR74 crores, largely on account of higher inventory arising out of higher scale of operations and higher value of the materials. And while working capital moved up by INR280 crores on a consolidated basis, which includes the inventory in transit for our overseas operations and receivables relating to CAMSO, as we have started invoicing directly to our customers. On a consolidated basis, our debt stood at INR3,846 crores, an increase of about INR604 crores over quarter 1.And to fund our quarter 2 capex program, we spent most of the money. And we also paid about INR140 crores of dividend during the quarter. We wish to inform you that we have got necessary approvals from the authorities to convert about USD 24 million of debt provided by CEAT India to Lanka OHT Limited, and the same is reflected as of end September results. Our debt-to-EBITDA on a consolidated basis stands at a healthy level of about 1.93x, arrived at based on trailing 12 months and which is a marginal increase over quarter 1 of about 1.58x. And our debt-to-equity ratio continues to remain healthy at about 0.77x, a marginal increase over quarter 1 level of about 0.65x.Coming to other expenses. Our employee cost was marginally higher in quarter 2, about INR14 crores on a stand-alone basis and about INR26 crores on a consolidated basis, which includes revision in our salary due to annual cycle revision that starts in quarter 2. However, employee cost as a percentage of revenue has declined in quarter 2 versus quarter 1, a trend that we have been witnessing for the last 4 quarters. Our consolidated other expenses was about 18.2%, 39 basis points improvement in quarter 1. This is at a time we are seeing unprecedented increase in freight and other indirect costs. Despite broad inflationary pressures extending beyond just direct input costs, we continue to strictly manage them efficiently.Our depreciation at a consolidated level remained in line with quarter 1, and our finance cost was INR87 crores versus INR146 crores in the previous quarter. The drop is mainly on account of the fact that in quarter 1, we had certain amounts of foreign currency-related costs that was part of it, which we did not have in quarter 2. Overall, our consolidated profit after tax for the quarter stood at about INR112 crores compared to about INR186 crores during the same quarter of last year and INR4 crores in the previous quarter.Thank you once again, you all. With that, we can now open the floor for Q&A.

Questions & Answers

Operator

Thank you very much. [Operator Instructions] We'll take our first question from the line of Raghunandhan N. L. from Nuvama Research. Please go ahead.

Raghunandhan N. L. - Analyst, Nuvama Research
Thank you, sir, for the opportunity. Good to see the margin improvement on Q-o-Q given challenging times. My first question was on the replacement demand outlook for H2. If you can talk about how do you see TBR, PCR and two-wheeler demand for H2 in replacement? And also whether the dealer inventory levels would be around normal levels or on the higher side?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Yes. So replacement demand for H2, I think commercial vehicle tires could be growing at about mid-single digits. Passenger, as I said, is growing at low single digit. And two-wheeler is growing in double digits, especially in rural and overall also in double digit. And farm could be low growth over last year in second half. So this is the outlook for replacement. Dealer inventory, because there's a continuous price hike. So even at the customer level, the offtake is uniformly good. People have stocked up and sold, and the consumption has been good over the last 4 quarters, if you see post GST. If the dealer inventory would have built up, it would have shown up by now. So we don't think the dealer inventory is particularly high despite the price hikes.

Raghunandhan N. L. - Analyst, Nuvama Research
Noted, sir. Thank you for that. And my second question was on the price hike given that approximately replacement, you might need 17% to 18% price hike to fully pass on the impact. How do you see replacement price hike plan for Q3 and Q4? And also in the export market, how much has been the price hike so far? And any plans of taking a hike there going forward?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So we have a gap, as you can see in the margin situation, gross margin is 33.5%, 33.6% in the first half. Our normal comfort zone is around 41%, 42%. So there is a 7%, 8% gap in gross margin as we have just finished first half. So that gap needs to be covered. Plus, there is a price increase in raw material expected in Q3 over Q2 to the extent of 3%. That needs to be covered as well. So there will be continuous price hikes in quarter 3 in replacement, and we will go country by country, category by category in international markets to seek opportunity of price hikes. It will be frequent, but in low doses. Quarter 2 end also saw a very low dose price hike. And through October, we are announcing further price hikes. So this is going to continue for some more time. Definitely in quarter 3 -- quarter 4 is too far away at this point of time to comment, but we need and we shall do price hikes through quarter 3.

Raghunandhan N. L. - Analyst, Nuvama Research
Noted, sir. My third question was on CAMSO. On CAMSO, your previous commentary was that the transition on the value chain should happen by end of FY '27, and customer transition also should complete. Just wanted to understand whether is it on track? Is there some delay in that transition? And how do you see the revenue and the margin trajectory ahead? Because our understanding was at $10 million per month revenue trajectory and then a further increase post the transition. And also, if you can talk about EBITDA, how do you see the trajectory?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So first, the project and the customer transition. Customer transition, as I mentioned, is about 85% complete. And by and large, it will be completed in quarter 3. So it's more or less on track. The other transition is on the upstream side of the plant in Sri Lanka, where we have to set up upstream equipment. We did say that it will be by end of this financial year. It may spill over to quarter 1 of

next year. So in a substantive manner, there is no significant delay. And by quarter 1, we should be able to ramp up our complete value chain in the plant. So that answers the transition question.And as we are having the customers in our hand, we are looking at a volume ramp-up of about 20% odd definitely in second half of this financial year vis-a-vis first half actual volume delivered in this financial year. So we are seeing 20% possibility of volume growth, and there will be further growth in FY '28 and FY '29. Of course, the plant has capacity to meet that demand. And EBITDA-wise, we should approach EBITDA neutrality and positivity in the second half of this financial year, which will improve further in FY '28.

Raghunandhan N. L. - Analyst, Nuvama Research
Noted, sir. Thank you for the thoughts. I will fall back to the team.

Operator
Thank you. We'll take our next question from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera - Analyst, Nomura
Thanks for the opportunity, sir. Sir, first question is on the volumes. You mentioned close to 10% volume growth at an overall level in quarter 2. What will be the replacement and exports volume growth in the quarter?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
In quarter 2, Y-o-Y, yes, you're right, about close to 10% volume growth overall we had. Replacement will be lower at lower single digit in terms of volume growth. And export and OEM will be lower double digit in terms of volume growth. So it will average out at about close to 10%.

Siddhartha Bera - Analyst, Nomura
Got it. So I think in last quarter, we did see slightly better replacement growth in the last quarter. So have we seen some moderation in the replacement growth also given the price hikes which we have been doing? Is that also something which is sort of impacting demand? And second question on the export side, sir, also you mentioned that we haven't passed on the entire cost. So I mean, when export demand is good, I mean, sort of what would be the catalyst or why the price pass-on is a bit slower there?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So first on replacement, we had a production bottleneck in a couple of categories in this quarter. So it was a slight internal issue, which led to some of the volume being lower, nothing to do with demand. And overall, there is a little bit seasonality in quarter 2. So quarter 2 on quarter 2 growth is decent, but quarter 2 on quarter 1, if you see, the demand does come down after the summer months. So there was nothing extraordinary about that. There's no slowdown in the market barring the seasonal adjustment in replacement and a minor glitch in our own production capacity in the month of July, August. So that explains replacement.In international business, yes, the price transmission has been slow. And we still have to transmit more prices in international market. There what happens is that we go selectively country by country. The competitive situation in each country is different. And globally, from the top-ranked European players to Chinese brands, everybody is there, and we are a value brand. We are placed at about 15% to 25% below the top European brands. So in that competitive scenario, it is sometimes difficult to go for price hike at the same time in all countries. So that's why on an average, the transmission is lower than in domestic market.

Having said that, the gross margin as well as at an EBITDA level, international business is still margin accretive over domestic market.

Siddhartha Bera - Analyst, Nomura
Got it, sir. Sir, last question on the working capital side. I mean, we did see a lot of drag in the first half of this year. Incrementally, as we go ahead for the full year, so do you think this will sort of see some more pressure from first half given the commodity scenario? Or do you expect some normalization in areas where probably we have been more conservative? So some thoughts if you can help.

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
No, on the stand-alone results basis, when the commodity prices impact the raw material costs, so raw material as well as finished goods value goes up quarter-on-quarter. So that had some impact. Normally, it gets compensated in the form of equivalent amount of value payables. If there is a match in terms of number of days of credit versus number of days of inventory that you hold, okay? So in the quarter ended 30th September, we did have impact on account of value being higher, and raw material inventory was a little higher than June and March. And we had to keep a little extra inventory, particularly the imported ones due to increase in transit time and to ensure that all our factories run efficiently without loss of production due to raw materials. So that had a little bit of a role with respect to about INR70-odd crores of increase in working capital in quarter 2 versus quarter 1.Overall, I think our working capital, we are around positive side about INR270 crores as of end September on a stand-alone basis. Largely, we were operating closer to 0 or negative until recently, and the increase in working capital is on account of one of the reasons being cost of materials have gone and average holding of inventory, both raw material and finished goods, being a little higher than the average period of the payable that had some role to play. And second, in terms of composition of our revenue is also changing. So when you have an increasing share of international business, okay, the receivable days in our books also move up, because the money gets collected after the inventory reaches and there's a little bit of a transit time. There's no inefficiency or anything like that there, but it is more about the change in model.To cut a long story short, our endeavor is to get the working capital back closer to the 0 level or INR0 to INR100 crores level in the next 1 to 2 quarters' time in a normal and stable environment. But if there's going to be any change, or if there's going to be any fluctuation in the transit time, particularly on the cross-border side, we may end up holding a little higher level of inventory to provide supply security to our factories. When it comes to consolidated, I think structurally, there will be some element of working capital as we start taking over customer servicing from CAMSO Michelin to ourselves, because the stock gets produced in Sri Lanka, but it gets sold in other parts of the world. So there is a transit time. There is also a receivable period. So these 2, there will be some amount of working capital, which will then work consolidated. We are trying to assess that impact of it. Maybe in the subsequent quarters, we'll be able to provide a little more color on it.

Siddhartha Bera - Analyst, Nomura
Understood, sir. Thanks a lot. I'll come back into queue.

Operator
Thank you. Next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora - Analyst, Kotak Securities
Thank you for the opportunity. My first question is just on the competitive dynamics on -- I know we have talked about 12% to 13% price hikes. How has the peer set pricing been? Has the industry taken similar quantum of price increases?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
In replacement, yes, the price increases have been similar, but there could be a time lag by 1 week, 2 weeks here and there. The quantum may be 0.25%, 0.5% higher or lower, but directionally similar.

Rishi Vora - Analyst, Kotak Securities
Okay. Again, so at least in your opinion, the ability to take further price increase is not going to be difficult as industry thus far has been disciplined on that front?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
I cannot predict, but we need price increase, and we will go for price increase is what I can say.

Rishi Vora - Analyst, Kotak Securities
Understood. And just on the quarter, how much of the price increase have actually flown through and what will come through in the third quarter? Like how should we think about that?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
See, total revenue growth minus volume growth can be taken as a price growth. The price growth will have some element of mix impact, but that is one good way of understanding the price growth.

Rishi Vora - Analyst, Kotak Securities
So it's going to -- roughly almost 8% Q-o-Q ASP increase would have happened. So I think that's similar to...

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Yes, true.

Rishi Vora - Analyst, Kotak Securities
So sequentially, the ASP increase then beyond mix will depend on the price hikes, which we'll be taking from October onwards, right? There's nothing lagging in terms of price pass-through that will happen from Q2. Is how we should read it?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
There is some lag. OEM, there is a lag of 3 months. In the replacement also, there is a little bit of a lag. I think Arnab, in his opening remarks or one of the questions, he mentioned about 6% to 7% of a gap versus our normal levels of margin of about 40%, 41%. That is a gap to be bridged.

Rishi Vora - Analyst, Kotak Securities
That I understood. But from a Q3 level, it is not something where we'll be able to, let's say, see any benefit coming through from under recoveries in Q2 is what I was trying to understand.

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
There's some lag in quarter 2. I think it is better to assume there will be a 3-month kind of a lag overall basis. Whatever happened in quarter 1, we were able to recover it in quarter 2 with some kind of a lag. So similar lag you can expect what happened in quarter 2 in terms of recovery at rupees per

kg level. And anything beyond that translates to gross margin percentage improvement.

Rishi Vora - Analyst, Kotak Securities
Okay. So in your assessment, should third quarter gross margin be stable versus Q2 if there is a 3% commodity inflation, which you have guided for?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
I think we'll wait till the price increase happens, because the price increase assumptions that we have made, we would like it to happen. And so therefore, it should be closer to the current levels, okay? But I think more clarity will come once we execute our pricing plans appropriately.

Rishi Vora - Analyst, Kotak Securities
Understood. And just last question on the CV replacement demand, right? Despite whatever 12%, 13% price increase we have taken, we are not seeing any challenges on the demand side because you are still guiding for a mid-single-digit growth on an elevated base. So the industry, all the fleet operators, we are not seeing any demand slowdown over there, like obviously, beyond the base effect?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Yes, base effect will come in. That is a significant thing because last year, Q3, Q4 just took off, as you know. So current going rate is about low -- mid-single digits, as I said. So we expect that to continue. Even if there's moderation, it will not go to 0 or negative. There is buoyancy in the market in construction, in mining and in general goods movement, in replacement I'm saying.

Rishi Vora - Analyst, Kotak Securities
Understood. And on a blended basis, you do expect replacement to grow by mid-single digit, right, in terms of volumes? Like on a blended basis, put together?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
More or less. Yes, yes.

Rishi Vora - Analyst, Kotak Securities
Right. Thank you so much. I'll get back to you.

Operator
Thank you. Next question is from the line of Mihir Vora from Equirus. Please go ahead.

Mihir Vora - Analyst, Equirus
Thank you for taking my question. So sir, my question was around the capex guideline. Like first half, we've seen largely you spent around INR800-odd crores, and this largely was into the stand-alone business. Now what I'm trying to understand here is that going ahead in the second half, what would be the proportion of capex which will also go into CAMSO, because we have been talking about the upstream and downstream equipment addition there. So can you quantify the number in terms of capex, which will be required for CAMSO here?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
See, CAMSO, I think in the transition part, Arnab mentioned about upstream readiness by quarter 1, okay? So our expected capex cash flow during the year is in the range of about INR100 crores to INR150 crores from upstream point of view. That is going to be the difference -- that is going to be

the addition over and above stand-alone capex.

Mihir Vora - Analyst, Equirus
Okay. So I think stand-alone is INR1,400 crores plus the INR150 crores or including INR150 crores?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
No, INR1,400 crores plus INR150 crores levels is what -- that would be the range.

Mihir Vora - Analyst, Equirus
Okay. All right. And sir, just one clarification here. Additionally, we also have some part of acquisition payment, which is left to be done for CAMSO. So when do we incur that, maybe in next year, second half?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
That will happen in August 2028. So by 31st August 2028, the 3-year period would have got over. Around that time is when we have to make that $44 million payment.

Mihir Vora - Analyst, Equirus
All right. All right, sir. And lastly, sir, on to the debt front. We've seen debt going up around INR600-odd crores in the first half. What would be the comfortable range where we would not be much concerned in terms of debt? Like any sort of targets where we will be comfortable in debt, like say, INR4,000 crores, INR4,400 crores kind of levels, which we see going ahead?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
See, we never had any absolute debt as a target. We always operated on debt-to-EBITDA, debt-to-equity. Leverage ratios used to be the guiding principle with respect to the debt. And a little bit of front-loading of capex happened in the first half of the year and more so in quarter 2 to ensure readiness of our two-wheeler expansion in Chennai and truck and bus radial expansion -- two-wheeler expansion in Nagpur and truck and bus radial expansion in Chennai. In the quarter that went by, we also paid about INR140 crores of dividend. So that also, in a way, contributed overall in terms of utilizing the operating cash flow that was generated in quarter 2. So in a tight scenario like this, 2x, 2.1x kind of debt-to-EBITDA could be taken as a guiding principle. In the past, we used to say we wouldn't like to cross 3x. That threshold, we brought it down. So around 2x, 2.1x level during the current year is the level at which we would like to operate.

Mihir Vora - Analyst, Equirus
All right, sir. That's all from my side. Thank you.

Operator
Thank you. We'll take our next question from the line of Ankur Poddar from Svan Investments. Please go ahead.

Ankur Poddar - Analyst, Svan Investments
Hi sir, my question is regarding our CAMSO. Could you just throw some light on the revenue recognition of CAMSO for the quarter? As last quarter, you had mentioned that we have reached a revenue run rate of $10 million per month. So how is the revenue ramping up currently? And how much of it are we recognizing? Is there a gap between the run rate which you have mentioned versus what we are recognizing in our books?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Yes, Amit, you can.

Amit Tolani - Chief Executive, CEAT Specialty Tyres India, CEAT Limited
Yes. So the revenue to the end customer stands at around $10 million per month. As informed by Arnab, we have taken over 85% of those customers in our fold by the end of September, and we expect to have the remaining customers with us in the third quarter, by the end of November. So the revenue to the end customer is clicking at $10 million. And sequentially, as we acquire these customers, that kind of revenue will be seen on our statements as well.

Ankur Poddar - Analyst, Svan Investments
Understood. And overall, how do we see this ramping up over the next couple of quarters? Overall $10 million, do we see this ramping up to around -- because our overall capacity is closer to $150 million to $200 million per annum. So by when do we see hitting that?

Amit Tolani - Chief Executive, CEAT Specialty Tyres India, CEAT Limited
So sequentially, you'll keep seeing the increase in volumes. And as we mentioned in the call earlier that between H1 and H2, you'll see a 20% to 25% increase in volumes.

Ankur Poddar - Analyst, Svan Investments
Okay, all right, got it. That's all from my side. Thank you.

Operator
Thank you. Next question is from the line of Vijay Pandey from Axis Capital. Please go ahead.

Vijay Pandey - Analyst, Axis Capital
Hi sir, thanks for taking my question. Sir, on the price increases, just wanted to understand when we have taken the price increases, and like in Q2, at what period of time? If you can please quantify the month, that will be helpful.

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
Cumulatively, look, the price increases happened throughout quarter 2 as it happened in quarter 1. Approximately, the impact of price increase in quarter 2 was around 8%. That was the quantum of price growth that happened in quarter 2. But price increases happened at different points in time. Cumulatively from 1st of April to till date, at an organization consolidated level, about 13% has been our price increase between 1st of April and 30th of September.

Vijay Pandey - Analyst, Axis Capital
Okay. So how much would be probably in August or September?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
See, July month, we had about -- in the OEM segment, the price increase was approximately 12% to 13%. In the replacement, it started off from beginning of July. I think out of the 8%, 5.5% kind of increase happened in July and balance happened in August and September.

Vijay Pandey - Analyst, Axis Capital
Okay. And sir, the $44 million payment for CAMSO, so that will be done in September 2027 or September 2028?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
Yes. See, end of August 2028. Cutoff date -- see, we took out the business on 1st of September. So maybe end of August is when we have the effective payment in 2028.

Vijay Pandey - Analyst, Axis Capital
Okay. And sir, one more thing. When we subtract the consol minus the stand-alone, the other income is negative and interest is also minus 90 for this quarter. Can you help us understand the dynamics in play, what is impacting that? And how should we look into it?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
See, consolidated other income, we received about INR20-odd crores of dividend from our joint venture entity in Sri Lanka, that is CEAT Kelani, okay? So because CEAT stand-alone receives the dividend, it is part of that, okay? And in the consolidation, it gets eliminated. The second question is on the finance cost, I think you are referring to, okay? Quarter 1 had a one-off kind of a foreign fluctuation-related cost that wasn't there in quarter 2, and that was the reason why there is a drop there.

Vijay Pandey - Analyst, Axis Capital
So going forward, how should we see the finance cost?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
No. See, finance cost, it will move in line with the debt levels, okay? So therefore, if you were to take quarter 2 as a reference number, 5% to 8% kind of a movement in debt level is possible between quarter 2 and in the subsequent quarters. And finance costs will also move in line with that.

Vijay Pandey - Analyst, Axis Capital
Okay. Okay. And sir, currently, is it fair to assume that our monthly realized run rate for CAMSO will be around $10 million?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So at a customer billing level, yes, and it will progressively grow, because as we said, we have taken control of the customers to the extent of 85% already, which will go to 100% in Q3. So you can say that customer billing price, $10 million is the base rate. The growth will come on top of that.

Vijay Pandey - Analyst, Axis Capital
Okay, sir. Thank you.

Operator
Thank you. [Operator Instructions] We'll take our next question from the line of Yash Agrawal from Nirmal Bang. Please go ahead.

Yash Agrawal - Analyst, Nirmal Bang
Hi sir, thank you for the opportunity. I just wanted to know what is our revenue share in EV, in OEM in both two-wheeler and PV? And what's our market share in 17-inch tires?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So the share of business in four-wheeler is about 25%. And in two-wheeler, it's in excess of 30% in OEM, in EV. And in premium tires, the revenue share will be close to 25% -- 24%, 25%.

Yash Agrawal - Analyst, Nirmal Bang
Okay. And sir, what is our mix in terms of domestic and natural rubber procurement? And has it changed post the reduction in discount between the international and domestic prices?

Kumar Subbiah - Executive Director & Chief Financial Officer, CEAT Limited
No. Approximately 2/3 of our rubber is imported and 1/3 is locally purchased. And this number has not changed recently on account of lower -- or parity in the international prices versus local.

Yash Agrawal - Analyst, Nirmal Bang
And also, sir, like we have taken price hikes to offset the raw material inflation. But as compared to peers, are we taking aggressive price hikes or we are in line with what other peers are taking in the industry?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So in replacement, it is more or less -- I mean, there could be a lag of a couple of weeks here and there, but it is more, as I said, directionally in line with how competition is behaving.

Yash Agrawal - Analyst, Nirmal Bang
Okay. And sir, one last question on CAMSO. Post the complete integration, from 2028, can we expect margins around 12% to 13%, what we guided before?

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
So as I mentioned, in half 2, we expect to be moving into EBITDA neutrality to EBITDA positive, half 2 of this financial year. So at EBITDA level, margins should be improving from that in FY '28.

Yash Agrawal - Analyst, Nirmal Bang
Okay, sir, that's it from my side. Thank you.

Operator
Thank you. Ladies and gentlemen, we'll take that as the last question for today. I now hand the conference over to management for closing comments. Over to you.

Arnab Banerjee - Managing Director & Chief Executive Officer, CEAT Limited
Okay. So thank you very much at the end of first half of FY '27. And in advance, I wish all of you and your family a happy festive season going into quarter 3, and see you in January '27 next. Thank you.

Operator
[Operator Closing Remarks]