



# “JK Tyre & Industries Limited Q4 FY-22 Earnings Conference Call”

**May 21, 2022**



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**Moderator:** Good morning, ladies and gentlemen and welcome to the JK Tyre & Industries Limited Q4 FY22 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratit Vajani – ICICI Securities Limited. Thank you and over to you sir.

**Pratit Vajani:** Thanks, Lizann. Good day everyone. Thanks for joining us today for the call. From the management side, we are represented by Mr. Anshuman Singhania – Managing Director, Mr. Arun K. Bajoria – Director and President Mr. Sanjeev Aggarwal – CFO and Mr. A.K. Kinra – Financial Advisor. Now I would like to handover the call to the management for the initial remarks. Over to you sir.

**Anshuman Singhania:** A very good morning everyone and a very warm welcome to JK Tyre’s Q4FY22 Earnings Call and thank you all for joining us today. I am Anshuman Singhania, Managing Director and I have with me Mr. Arun K. Bajoria, Director & President – International Operations, Mr. A.K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of the Company.

The year was remarkable in terms of achieving highest ever turnover of more than Rs.12,000 crore, registering a growth of over 31% viz-a-viz FY21 on a consolidated basis. This has been achieved on the strength of higher sales in the domestic markets (replacement and OEM) coupled with highest ever exports of Rs.1,873 crore, which is up by ~60% on y-o-y basis.

Domestic market will remain our major focused market. In addition, we will continue to expand our footprints in global markets to gain higher volumes with market specific products like Truck & Bus tyres, Passenger Car tyres and OHT. Cavendish and JK Tornel have also contributed significantly to the highest ever revenues during the quarter on the back of good demand in their respective markets.

We witnessed a strong domestic growth specifically for product segment like Truck Bus Radial, Passenger Car Radial, LCV Radial, SCV Radial tyres category. OEM demand has improved in the financial year 2022 on account of revival in commercial vehicle and passenger car segment with the gradual pick-up in economic activities and post unlocking of covid restrictions. However, semi-conductor chip shortage, supply chain constraint continue to impact OEM offtakes. Farm segment and 2/3 wheeler demand was lower due to muted rural demand. We have recently added business with KIA Motors for its model “KIA CARENS” in this quarter.

On the outlook of the Tyre Industry, we believe there is strong demand growth across all market segments given the improved economic sentiments, record agri output coupled with improved realization in the country, which is expected to lead to robust rural demand in this year. Further, with the expected moderation in inflationary pressures and improved geopolitical sentiments, automotive as well as tyre demand should improve further. Strong infrastructural spending by the Govt. will continue to improve the CV segment demand in the coming years.

Continued inflationary input cost pressures have resulted in compression of operating margins. However, we are increasing selling prices progressively and have undertaken cost reduction and efficiency improvement measures to moderate the impact of increased input costs. We



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hope that the inflationary pressures would taper down post resolution of the geopolitical tensions and supply chain constraints.

We are happy to announce that “The Board has approved PCR capacity expansion project for an estimated cost of Rs.530 crore at Banmore Tyre plant. The proposed expansion plan along with the de-bottlenecking program, which has recently been commissioned, will lead to an increase in PCR Capacity by 35%. The proposed expansion is expected to become operational by December 2023”.

We have been continuously investing in R&D and technology to offer world class technology and tyres to the customers. We have always been pioneer to introduce newer technological products in the market. Smart tyre is one of its kind in Indian market and is gaining traction. We have recently launched puncture guard tyre in the passenger car segment. JK Tyre is the first Company to launch such an innovative tyre in India. We have already developed EV tyre and have been supplying to several OEMs.

Energy & Resource conservation drive is at the core of our value system. We have set out target to improve renewable power contribution up to 70% by 2030. We are focusing and working on conversion to greener fuels, i.e., by replacing coal to biomass. Continuous improvement measures are undertaken in energy efficiency, raw water consumption and other resource conservation. We are happy to share that with all these efforts our Chennai tyre plant has become the first Indian plant in the Industry to receive “Zero Liquid Discharge” Plant certification from British Standards Institution (BSI).

Our CSR mantra is to empower people, generate social wealth and stay invested in the creation of sustainable value for the society. Corporate Governance is an integral part of values, ethics and the best business practices followed by the Company. We believe that we are one of the most sustainable companies focusing on all aspects of ESG and remain committed to offer advanced and differentiated products in the market.

We have received several coveted awards & accolades in our business:

1. Received award to be among the India’s top 30 Most Sustainable companies, organized by Business world.
2. We have been recognized once again as India’s Best Workplaces in Manufacturing for year 2022 by “Great place to work”
3. JK Tyre has been recognized for INNOVATIVE AUTO SOLUTION at Top Gear Awards 2022 for “Puncture Guard Tyre”
4. Best Supplier Award by WALMART Mexico' out of 315 companies/suppliers to JK Tornel.

Now, I request our Mr. Bajoria to talk about the performance for JK Tyre & subsidiary companies.

**Arun K. Bajoria:**

Thank you Anshuman ji. With regards to the JK Tyre subsidiaries performance, both the subsidiaries continue to contribute well in terms of overall revenue and profitability. Cavendish Industries Ltd. recorded net revenue of Rs.848 crore in Q4FY22 as compared to Rs.791 crore in Q4FY21 (corresponding quarter) and achieved an annual turnover of nearly Rs.3000 crore in this financial year – the highest ever, including record exports at Rs.307



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crore. Operating margins at CIL were under pressure due to unabated increase in input costs.

JK Tornel, Mexico has performed exceedingly well and has achieved 87% revenue growth in FY22 from Rs.1135 crore to Rs.2120 crore – once again highest ever. During the quarter, JK Tornel achieved a turnover of Rs.586 crore as compared to Rs.408 crore, an increase of 44%. Operating profit at Rs.187 crore, which is an increase of 167% on y-o-y basis.

Despite increased input costs, the profitability margins at JK Tornel has improved by 270 bps during this financial year due to product price increases as well as other operating parameters . JK Tornel has achieved highest market share in PCR category which is nearly 12% in replacement market in Mexico. It is continuing to be in the number one position in online Sales and currently operating at over 98% capacity utilisation in passenger radial category. LATAM & Brazil export sales has grown multifold.

There has been a significant debt reduction in JK Tornel in the last 2 years.

Now I request Mr. Aggarwal to brief about the financial performance of the quarter.

**Sanjeev Aggarwal:**

Thank you sir. Thank you, very much and good morning, everyone. Let me now take you through the key highlights of financial performance in Q4FY22 and for the financial year 2022. The consolidated sales were recorded at Rs.3,320 crore as compared to Rs.2,945 crore in the corresponding quarter, registering an increase of 13% on y-o-y basis. Revenue for the financial year 2022 were recorded at more than Rs.12000 crore, registering a growth of over 31%. The capacity utilisation was around 90% during the quarter. Export revenues were recorded at Rs.460 crore viz-a-viz Rs.367 crore in Q4FY21, an increase of 31%. In the financial year 2022, our exports have grown by approximately 60% over the corresponding period, i.e., from Rs.1176 crore last year to Rs.1873 crore this year. Profitability at EBDITA level in Q4FY22 was recorded at Rs.236 crore and Rs.1110 crore for FY22 on consolidated basis. As already mentioned, profit margins contracted due to unprecedented rising input costs. Cash profit for the year stood at Rs.691 crore and Profit before Tax (PBT) stood at Rs.309 crore.

Finance cost in FY22 has gone down on y-o-y basis by 10% to Rs.419 crore from Rs.466 crore. We are following strict credit discipline and efficient cash management with lower borrowing costs. The leverage ratios of the company remains at comfortable level.

To be on growth path, we have already undertaken TBR expansion project of Rs.236 crore and have also received board approval for expansion of PCR capacities at our Banmore Tyre Plant which will, involve total capital outlay of Rs.530 crore.

Simultaneously, we have been continuously focusing on deleveraging. We remain committed to reduce our long term borrowings significantly by 40% in next 3 years.

The Board has recommended a dividend @ 75%, i.e., Rs.1.5 per share on face value of Rs.2 each. We have already circulated our earnings presentation which is available on our website as well as on the stock exchange websites. Now we open the forum for question and answer. Thank you.



- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is in the line of Bharat Bhagnani from Living Root Capital.
- Bharat Bhagnani:** My question was on the working capital. I saw that towards the end of the year our inventories and receivables increased significantly, so any inputs on that?
- Anshuman Singhania:** I would request Sanjeevji if you could please answer.
- Sanjeev Aggarwal:** Mr. Bhagnani, we have been keeping a very tight control on the working capital but you will appreciate that during the financial year as a whole, the input costs have gone up because of the increase in raw material prices and the logistics costs which has led to increase in the working capital requirement. Also, when we compare this financial year with previous financial year, then there has been a higher capacity utilization during FY22. These two factors put together lead to higher working capital requirement. Just for comparison sake, during the pre-pandemic period, capacity utilisation was 70% to 75% utilization and during FY22 it was more than 90% and still working capital levels have remained same and borrowings were also at the same level.
- Bharat Bhagnani:** So, these inventories, do they include like some pre-purchase of raw materials as well?
- A. K. Kinra:** As Sanjeev, said that we are keeping a very tight control and if you ask me the cycle per se has come down, though the number may have gone up.
- Sanjeev Aggarwal:** One more reason I could tell you is that our exports have gone up significantly from last year of about Rs.1,100 crore to Rs.1,800 crores plus in FY22, which has higher credit period.
- Bharat Bhagnani:** So next question is on the exports, Anshuman ji mentioned that we achieved the highest ever exports of 1,840 crores this year. Now when you calculate this figure, are we talking about exports from India or are we considering the exports from Mexico into USA also for this calculation?
- Anshuman Singhania:** We have shared the exports figure from India only.
- Bharat Bhagnani:** So, Mexico would be separate?
- Anshuman Singhania:** Yes.



- Bharat Bhagnani:** My final question is on the PCR expansion that board have approved, now what are the funds tieup for the 500 odd crores, do we intend to borrow or do we intend to use internal accruals, where's the funding going to be from?
- Sanjeev Aggarwal:** We have already commissioned successfully the debottlenecking program which we had announced earlier. Now we have taken the approval from the board to go ahead with the PCR expansion as there is a very good demand for PCR tyres in the domestic and exports markets. The capacity increased through debottlenecking as well as through the above PCR capacity expansion which we are going to undertake now will increase our capacities by about 35% from the present levels. Further, the project shall be funded through a mix of debt and internal accrual. We have been in touch with our lenders and they are quite positive and they will be able to provide sufficient amount of loans to finance this.
- Bharat Bhagnani:** Your PCR capacity is about 9 million tyres per annum, so that we grew up by 35%, is that correct?
- Sanjeev Aggarwal:** Yes.
- Moderator:** The next question is on the line of Noel Vaz from Asian Market Securities.
- Noel Vaz:** I just wanted to understand, so this expansion of PCR, this is primarily being undertaken because our domestic utilization is close to 90%, is that the view that is being taken because a 35% increase seems a bit on the steeper side, so I was just wondering how does the company plan to ramp up production? What is the thought around ramping up the production?
- Anshuman Singhanian:** Yes, our utilization has been more than 90% in the passenger radial. We are seeing a good demand which is on our way coming. We are working very hard to improve the productivity as well, so that we can cater to the both domestic as well as exports demand.
- Noel Vaz:** Actually, my question is more along with the timelines.
- A. K. Kinra:** It will be completed by December '23.
- Noel Vaz:** I didn't get that point.
- Sanjeev Aggarwal:** Mr. Kinra is only clarifying that this new expansion which we have announced will be made available only after December, 2023. So, the present expansion which we completed through debottlenecking will be made available during this financial year and till the time the new expansion comes up.
- Noel Vaz:** Just wanted to understand, is there any issue from the marketing or distribution side.
- Anshuman Singhanian:** Absolutely not. Just to give you an idea that there is a big backlog of the export demand which we were not able to cater to before the debottlenecking project came into be.



- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.
- Jinesh Gandhi:** The question is on the truck and bus tyres. How has been the growth which we've seen in the replacement market both for TBB and TBR in fourth quarter?
- Anshuman Singhania:** The growth of TBB and TBR has been good. From the fourth quarter onwards, we are seeing the OEM-CV segment picking up. We are seeing CV segment, which was muted in the previous quarters has now started picking up and also in the aftermarket demand has picked up because of improvement in the core industry, i.e., cement, steel, mining. The utilization of vehicle has tremendously gone up. The commercial CV segment is looking to be buoyant this year.
- Jinesh Gandhi:** Because in fourth quarter some of your peers have indicated that replacement demand was relatively weak, both for TBB had declined and TBR also was relatively muted. Did you also see the trend is what my question was?
- Anshuman Singhania:** I am sorry. I missed the first half of the question. There was some disturbance. Could you please repeat that please?
- Jinesh Gandhi:** My question was given some of your peers have indicated impact in fourth quarter on the replacement demand on TBB and TBR, did we also witness similar trend or we still grew at a reasonable pace?
- Anshuman Singhania:** No, we had a reasonably good demand and OEM had also picked up in the fourth quarter. We had a good demand in the fourth quarter.
- Jinesh Gandhi:** Second question pertains to exports, we have done tremendous job, growing almost(+60%) in FY22, how do you see the growth spanning out in next 2 to 3 years in this business given that it's shining area for the broader Indian tyre industry? And secondly within that would exports be better than our corporate average margins or it will be more or less in line?
- Anshuman Singhania:** I will take the last question first; export realization has been good because we're able to pass on the substantial amount of raw material price increase in the market. The market absorbs that price increase in the international market. Well, about our performance, we have achieved 60% growth over YOY from Rs. 1,176 cores to Rs. 1,873 cores in



FY22. This has been possible through our continuous thrust on providing quality products and services to our customers. We as a brand has been continuously increasing our footprints across the geographies. In order to sustain and continue growth in export in these geopolitical and economic conditions, we intend to continue our effort to leverage our synergy between India and Mexico business, develop technological advanced product, specific products and create brand image of our products in the international market.

**Jinesh Gandhi:** A last question is on the RM cost pressure. What kind of RM cost pressure we saw in fourth quarter and based on the current RM prices what kind of inflation do you further see in Q1 FY23?

**Anshuman Singhania:** On the RM front there has been an increase of 3% to 4% in Quarter 4, FY22. We expect that increase during Quarter 1, FY23 would be between 4% to 5%.

**Jinesh Gandhi:** And for that what kind of price increases have we taken in fourth quarter and in 1Q so far?

**Anshuman Singhania:** The company has taken a price hike of 1% to 2% in Quarter 4, FY22 but may take a further price increase of 4% to 5% in Quarter 1, FY23 to moderate the impact of our margins. However, this is all subject to market conditions.

**Moderator:** The next question is on the line Mitul Shah from Reliance Securities.

**Mitul Shah:** The first question is on export contribution, this year as you said has gone up significantly. What is a sustainable contribution you expect over the next 1 to 2 years? What is the long-term like next 4-5 years plan to take this export contribution and just directionally export margins are better in this current situation or more or less at par with domestic?

**Anshuman Singhania:** As I explained in the previous question, the export market still remains very buoyant and the market which we are catering to, there is immense potential of the demand there. So, we have a firm view that export remains buoyant for this year and the coming years.

**Mitul Shah:** But do you expect it to go further on higher level or this is decent level which we will be able to sustain?

**Anshuman Singhania:** As I explained that there is immense potential in the export markets in different geographies. It is actually the company in terms of capacity, how much we can cater to. We are definitely focusing on the domestic market first and then the export markets.

**Mitul Shah:** The second question how the market share is trending in the domestic replacement side segment wise, any ballpark number?





- Anshuman Singhania:** We are doing fairly well in the domestic market in terms of all the product categories, particularly the CV category and passenger car categories.
- Mitul Shah:** On the Mexico operation, if you can throw more light in terms of how the situation and what is outlook there and within Mexico operation in terms of export, we export to US but do you have any plans to export to any other countries? For example, this Europe and all those things, we are exporting from India only or there is a scope for further expansion of Mexico products also?
- Arun K. Bajoria:** We are exporting out of Mexico to North America and to Latin America and quite a bit of countries of Latin America for example Colombia, Brazil, Argentina, Venezuela and Cuba and all those parts and very small portion to Europe, but not really major exports from Mexico to Europe. Going forward, there is immense demand from all these countries and our export growth is fairly good and we hope that this will continue.
- Mitul Shah:** Any scope for Europe point of view, any strong potential possibility?
- Arun K. Bajoria:** We are not expecting to grow much in Europe but because we have logistical advantages towards the Latin American countries and also to North America, we are growing in that part of the world.
- Mitul Shah:** How is the situation outlook for domestic market in Mexico?
- Arun K. Bajoria:** Very good. Our demand is very robust and our market shares are very good. We are trying to increase our market share on a year-on-year basis.
- Mitul Shah:** Industry growth, if you can give some guidance on the what would be the industry growth in Mexico?
- Arun K. Bajoria:** The tyre industry growth in Mexico is in the range of 6% to 9% and why I'm giving this range because it depends on which tyre we are talking about, whether it is commercial tyres, whether it is passenger but all of this will be covered in that range of 6% to 9%.
- Mitul Shah:** Lastly on Cavendish, if you can give how the products and all those things changing there and inter-segment Cavendish to JKIL, how those shaping up?



- Arun K. Bajoria:** I would like to add in your demand scenario that in Mexico, we are supplying in very big way to Walmart. As our Managing Director just mentioned in his opening remarks that we have been awarded the No.1 supplier out of the 315 suppliers to Walmart. Now coming to CIL, you wanted to know exactly the demand prospects going forward?
- Mitul Shah:** Yes, demand prospects and the how is the inter-segment revenue or overall business now, what is there any change over the last 1 or 2 years compared to 2 years ago Earlier we used to take Cavendish products and then we used to market under JKIL, so what is the situation there?
- Arun K. Bajoria:** No, we are continuing to manufacture JK Tyre products in Cavendish and the growth of Cavendish is pretty good. Going forward also we hope to even surpass of that growth. For example, as I mentioned that this year, we have achieved nearly 3,000 crores from 2,500 crores-2600 crores, a growth of about 16% and we would maintain this growth. In fact, we maybe surpassing this growth.
- Mitul Shah:** What would be this inter-segment number for fourth quarter and full year?
- Sanjeev Aggarwal:** I would like to add to what Bajoria ji has said. That there has been sales between CIL to JK Tyre, CIL to Tornel and JK Tyre to Tornel as different companies catering to different markets ,depending upon the best possible logistics, in order to save costs. Inter-unit sale is about Rs. 250 crores for the quarter and Rs.800 crores for the year.
- Mitul Shah:** Lastly just follow up on this CAPEX of Rs. 530 crores we recently announced. It would be roughly on a 2 years basis as you highlighted that December '23 would be the period to make it operational.
- Sanjeev Aggarwal:** Yes, the outlay will be spreaded over 2 years period.
- Mitul Shah:** Broadly '23 and '24 overall CAPEX, consolidated basis what would be apart from this?
- Sanjeev Aggarwal:** CAPEX would be incurred over the next 2 years period which will include TBR expansion in CIL announced in Feb'22. So total expansion capex would be Rs.766 crores.
- Mitul Shah:** So roughly around 1,200-1,300 crores CAPEX over 2 years, roughly?
- Sanjeev Aggarwal:** Yes, total spent over the next 2 years, i.e., FY23 and FY24 would be Rs.1100 crore including maintenance capex of approx..Rs.300 crore.
- Mitul Shah:** Mexico would be no major CAPEX?
- Arun K. Bajoria:** Not yet Mr. Mitul because we have completed the expansion already about 2 years ago but we are all continuously weighing the markets and maybe going forward we may take up further expansion at Mexico.
- Moderator:** The next question is from the line of Shashank Kanodia from ICICI Securities.



- Shashank Kanodia:** Just wanted to check what will be our maintenance CAPEX per year, it's Rs. 200 crores?
- Sanjeev Aggarwal:** Annual Maintenance CAPEX is in the range of about Rs.150 crores at consolidated level depending upon the requirement.
- Shashank Kanodia:** Putting up on your growth CAPEX and the maintenance CAPEX in total, will we be spending something like Rs. 1,100 crores over the next 2 years, right?
- Sanjeev Aggarwal:** Can you please repeat your question?
- Shashank Kanodia:** Taking together your growth CAPEX of Rs. 766 crores and Rs. 150 crores of maintenance CAPEX per year will we be spending something like Rs. 1,000-1,100 crores over the next 2 years, right?
- Sanjeev Aggarwal:** Yes, that is correct.
- Shashank Kanodia:** The growth CAPEX was Rs. 766 crores. What kind of revenue potential does it held?
- Sanjeev Aggarwal:** That will generate revenues of about Rs. 1,000 crores.
- Shashank Kanodia:** The total installed capacity for JK Tyre is 6 lakh tons, mentioned in your slide. If you could break it up between India standalone, CIL and Mexico and what were the utilization levels for FY22?
- Sanjeev Aggarwal:** Utilization level you are asking basically?
- Shashank Kanodia:** The absolute capacities also?
- Sanjeev Aggarwal:** Capacity utilization is more than 90% across all the companies in India and Mexico.
- Shashank Kanodia:** Can you share individual capacity utilisation between India, CIL and Mexico?
- Sanjeev Aggarwal:** It is about 85% for India - JK Tyre has been at around 89% or 90% and Cavendish is about 80% and for Tornel again this is nearly 90%.
- Shashank Kanodia:** Secondly, on the operating margins front. So, this quarter doing 7% which is I think the worst ever in the history of JK Tyre and you have vastly underperformed the competitors as well? Even there are raw material pressures within the system and you would take some calibrated price hikes. What is the sustainable level of margins which you are looking forward for JK Tyre on the standalone and consol basis for the next 2 years?
- Sanjeev Aggarwal:** Increase in raw material prices has been quite steep and unprecedented. We were able to pass on only about 60% of the hike. We are hopeful that the margin levels will improve going forward to about ~12%-13%.
- Anshuman Singhania:** I would like to only add here that because of the unprecedented raw material price increase, there has been a margin compression in the Industry.



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Our strategy is to improve margins through operating leverage, premiumisation of product range in truck & bus and passenger car segment. We are gradually increasing the selling price as well and working on efficiency improvement and cost control measures.

**Shashank Kanodia:** Over the next 2 years-next two quarters at least we'll see some margin recovery or you let this is probably the levels that we will be working upon?

**Anshuman Singhania:** Yes, we are going to be see a gradual margin recovery as we go along in subsequent quarters.

**Shashank Kanodia:** Lastly what is the gross debt on books for fiscal year FY22 end?

**Sanjeev Aggarwal:** Long term loan is about 3,070 crore and working capital is about Rs. 2,000 crores. So, the gross debt is around Rs. 5,100 crores.

**Shashank Kanodia:** The margin profile that you are working with and good amount of Rs. 1,000-1,100 crores of CAPEX, and Rs. 800-900 crores of interest & debt repayment, you see your debt coming down on the absolute basis over next 2 years?

**Sanjeev Aggarwal:** This is what we have guided in the past that deleveraging shall continue and in future debt reduction which would be on account of scheduled debt to the extent of about Rs. 550 crores in FY23 and another reduction by Rs. 400 crores each in FY24 and FY25 in the long-term debt. But of course, some amount of debt will get added because of the new expansions which would be availed in a ideal ratio and as Anshumanji clarified improvement in margins shall take place going forward.

**Shashank Kanodia:** One last thing, given the current debt situation that we are into; are promoters looking for any vision of equity in the company in the near future?

**Sanjeev Aggarwal:** That we would not like to comment. We'll see as the situation emerges.

**Moderator:** The next question is from the line of Shubham Agarwal from Aequitas India.

**Shubham Agarwal:** I just wanted to have a bit more clarification on the CAPEX. You did mention that the debottlenecking exercise have already been completed and out of the PCR capacity expansion of 35% which includes the new capacity. How much has already been achieved because of this exercise and what is the potential revenue that we can get out of this in the current year?

**Sanjeev Aggarwal:** Overall, in the case of bottlenecking we have increased our capacities by about 17% which will be made available during this financial year as we are seeing a good demand in the domestic and export markets for the PCR tyres.

**Shubham Agarwal:** What is the potential revenue for this 17% increase?



- Sanjeev Aggarwal:** Roughly around Rs. 500 crores of revenue can be generated through this expanded capacity.
- Shubham Agarwal:** Secondly on the PCR expansion of Rs. 530 crores odd, what is the time line for commissioning this project?
- Anshuman Singhania:** March 2023.
- Shubham Agarwal:** Secondly on the margin side so earlier in the call you did mention that last quarter RM increased by 3% to 4% and this quarter also it has increased by 4% to 5% but the increase in realization is not taking place at the increase of raw material. But you mentioned that the margin should improve from coming quarter also. I just wanted a bit more clarification that how things are going to pan out over the next one or two quarters?
- Anshuman Singhania:** The price increases are happening in different product categories considering the market condition in terms of absorption of that price. So, there is always a lag effect of the price increase, which gets reflected in subsequent quarter. Just one quarter indication is not good enough.
- Shubham Agarwal:** Lastly on the export side, so what are our key export geographies if you can explain that?
- Anshuman Singhania:** We are focusing on many geographies mainly the North America which includes Mexico, US and Canada. We have a large percentage of our sales going there plus in East and Middle East Asia as well. These two are big markets and plus LATAM which consist of Peru, Colombia Brazil and Chile. These are big markets for us.
- Moderator:** The next question is from the line of Amit Aggarwal from Leeway Infotech Private limited.
- Amit Aggarwal:** My question is regarding the rubber prices. Have they come down from the peak levels and will that some margins to the bottom line this quarter?
- Anshuman Singhania:** Yes, the rubber prices in the last couple of days are coming down.
- Amit Aggarwal:** The margins will increase this quarter because you are further taking the price rise of 3% or 4% plus rubber prices are coming down and oil prices are stable right now. The thing that there can be a massive margin especially from this quarter itself or we have to wait for one or more two quarters?
- Anshuman Singhania:** Apart from natural rubber there are others raw materials which are crude based. The whole category of crude based raw material basket is going up. If crude oil gets stabilizes then we may see some relief raw material price increase.



- Amit Aggarwal:** For this quarter itself or we have to wait for another quarter, what do you think, what is your expectation?
- Sanjeev Aggarwal:** In fact, as we have clarified earlier. There will be further increase in raw material which we are expecting in the range of about 4% to 5% in this quarter and equal amount of the increase in prices we will take. Major improvement can come only once the raw material prices gets stabilized in future.
- Amit Aggarwal:** My next question is, I've been following the company for last 6-7 years. Compared to its competitors, our margins are always less. What is the reason? Like compared to Apollo or MRF or Balkrishna. What is the reason behind the same?
- Anshuman Singhania:** I would not like to comment on any of the other companies. But here at JK we are constantly working on improving our margins and another major reason is the mix which, varies company to company. As I said that we are concentrating and leveraging on premiumizing product mix in the TBR and PCR categories.
- Amit Aggarwal:** My last question is regarding this new product that has been advertised by JK Tyre puncture free tyre. How is it different compared to the other tyres and how advanced is the technology compared to the other tyres in the market? Will it help in our margin expansion as a whole?
- Anshuman Singhania:** Yes, we have recently launched the puncture guard tyre and this is available in 15 inch and above PCR category. Here the differential pricing is almost around 15% to 16% compared to a normal tyre and this is gaining good traction. Our numbers are gradually picking up and yes indeed this will definitely help us in improving the margins. Up till now we are the first in the industry to launch such as product.
- Amit Aggarwal:** Is there any chance of getting to the high-end luxury cars like we are supplying to Kia right now? Is there any chance in the future, in 1 or 2 years that we might target the most luxury car available in India? Because I think that technology is very good compared to the other tyre manufacturers?
- Anshuman Singhania:** We are definitely working in the luxury space but our acceptance of higher sizes tyres are majorly in the aftermarket which is a replacement market which is definitely gaining traction at the moment. We are very working with OEMs in the higher end variants as well.
- Arun K. Bajoria:** And incidentally the luxury cars like Audi or BMW or Mercedes are all fitting JK Tyre as well in the 17-inch and 18-inch range even today in the replacement segment.
- Amit Aggarwal:** You're talking about the OEM or this is replacement side you are talking about for Mercedes and Audi?



- Arun K. Bajoria:** No, not yet to the OEMs. We are talking about the replacement sales and incidentally I can tell you that we are supplying OEM tyres to the Daimler-Benz for their commercial vehicles.
- Amit Aggarwal:** Because you just said that commercial vehicles are really picking up. Is there any expansion plan on that side or we have sufficient capacity to match that commercial demand?
- Anshuman Singhania:** We have already taken an expansion of TBR capacity of Rs. 236 crores which we've already announced which is going to be completed within March 2023.
- Amit Aggarwal:** The demand of commercial vehicles is very good so is it difficult to pass on the prices in that category of tyres?
- Anshuman Singhania:** There is a good demand in the market, but we are gradually passing on the prices. We cannot pass on the full price increase in the market in a one go.
- Moderator:** The next question is from the line of Basudeb Banerjee from ICICI Securities.
- Basudeb Banerjee:** As you said that 4% to 5% raw material basket increase in Q1 and typically that is the lag effect of the commodity prices which happened during Q4 where it will affect your Q1 raw-mat basket. Already we are mid of May so first half of Q1 is over. How do you see raw-mat basket spanning in Q2, combination of natural rubber and group derivatives combined?
- Anshuman Singhania:** As you heard rightly in Q1, we are expecting it to increase by 4% to 5% and there is so much of uncertainty and there is no visibility. We would not like to comment that how much it is going to increase or decrease.
- A.K. Kinra:** No guess estimate at this stage.
- Basudeb Banerjee:** what is your total TBR capacity as of now in ton per day including Cavendish?
- Anshuman Singhania:** We are at 36 lakhs per annum.
- Basudeb Banerjee:** Can you tell that in ton per day?
- Anshuman Singhania:** We will have to just calculate that per day so we will come back.
- Basudeb Banerjee:** What's the utilization in overall TBR as of now?
- Anshuman Singhania:** Utilization levels in TBR are at 90% plus.
- Basudeb Banerjee:** In the call as you said the plans of TBR expansion. What is the percentage of capacity within TBR you are increasing?
- Anshuman Singhania:** We are building 10%.



- Basudeb Banerjee:** What's the CAPEX replacement cost, CAPEX per TPD as of now?
- Anshuman Singhania:** For the TBR?
- Basudeb Banerjee:** Yes.
- Anshuman Singhania:** TBR we have already announced earlier at a Rs. 236 crores.
- Basudeb Banerjee:** I was just trying to understand that the typical CAPEX per TPD which used to be around Rs. 10 crores 3 years back; how much inflation is has seen in terms of CAPEX per TBR as of now?
- Sanjeev Aggarwal:** If you recall in 2018, we had announced a project for about Rs. 590 crores for expansion of TBR capacities which was later on deferred because of the market conditions, pandemic and several legislative changes in terms of axle norms, insurance etc. But by that time, we had already incurred about Rs. 175 crores on the long lead items purchase. You should look at the amount together, i.e., Rs. 236 crores along with Rs. 175 crores which we have already incurred. Put together capex of Rs. 411 crores to increase the capacities of the TBR by about 10%.
- Basudeb Banerjee:** Out of your India operations; what percentage of revenue is coming from PCR?
- Anshuman Singhania:** 21% approximately.
- Basudeb Banerjee:** I was trying to understand that PCR being a better margin segment, where PCR replacements pricing power should be much superior. As somebody also asked that we are at 7% margin. From a portfolio perspective if I try to see a PCR being 20% and overall margin being 7%, the implied truck tyre margin must be much lower which implies a replacement market pricing power in truck segment must be very low as of now. From that angle I was trying to?
- Sanjeev Aggarwal:** Can just repeat your question.
- Basudeb Banerjee:** PCR margins must be superior to truck margin. One-fifth of the business is coming from PCR. Just was trying to understand the overall pricing power for the industry in the truck replacement?
- Sanjeev Aggarwal:** Yes, that's correct.
- Moderator:** The next question is from the line of Amit Aggarwal from Leeway Infotech Private limited.
- Amit Aggarwal:** I just wanted to know which is supposed to be the best quarter for tyres, out of the four quarters, volume wise?





- Anshuman Singhania:** The first quarter because of the summer months has been historically very buoyant considered to be a good.
- Amit Aggarwal:** Which is the worst?
- Anshuman Singhania:** When the rain starts, July-second quarter.
- A.K. Kinra:** Sometime the rains start in May, sometimes starts in July. I think it's not that kind of a seasonal industry as Sanjeev has mentioned.
- Moderator:** The next question is from the line of Mitul Shah from Reliance Securities.
- Mitul Shah:** Clarification on CAPEX side. Would that be around Rs. 1,100-1,200 crores over 2 years or it would be (+Rs. 1,500) crores? Because if I am adding roughly Rs. 770 crores for growth CAPEX, Rs. 530 crores recently announced CAPEX and around Rs. 300 maintenance CAPEX. So that number comes to be close to more than Rs. 1,500 crores whereas in previous question you highlighted Rs. 1,100 crores?
- Sanjeev Aggarwal:** Let me clarify it. The debottlenecking program which we had announced earlier that has already been commissioned and completed. Now the projects in hand are TBR capacity expansion for Rs. 236 crores and the PCR capacity expansion for Rs. 530 crores. So, these are the two main expansion projects at this moment. Apart from this the maintenance CAPEX of about Rs.150 on annual basis, which Rs.300 crores for 2 years period.
- Mitul Shah:** Rs. 1,100-1,200 will be appropriate number?
- Arun K. Bajoria:** Nearly Rs. 1,100.
- Mitul Shah:** Lastly on the EV tyre side any sizable presence we are able to make it or we are still entering to the EV segment?
- Anshuman Singhania:** Yes, we are in very much advanced talks with the OEMs. However we are already supplying EV tyres in the bus application in the country and also even in two-three-wheelers category.
- Mitul Shah:** Any client addition on the overseas business? In India we added Kia recently you highlighted. Any major client addition outside India operation?



**Arun K. Bajoria:** In commercial as well as in the passenger vehicle in Mexico we have added Scania, the bus manufacturer. We are also supplying some trials tyres to this another bodybuilder in Mexico. These are the additions but otherwise you see we are supplying to Mahindra's from Mexico for their tractors. We are giving them the tractor, rear tractor tyres and the front tractor tyres. Where they are exporting, they are building in Mexico and they are exporting all over, mainly to USA.

**Moderator:** That was the last question. What do you like to add any closing remarks?

**Sanjeev Aggarwal:** I once again thank you all for joining us today for the Quarter 4 earnings call and we hope that we have been able to reply to your questions to your satisfaction. Thank you very much.

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