"JK Tyre & Industries
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the JK Tyre & Industries Q1 FY2022 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. This conference call may contain forward-looking statements, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand over the session to Mr. Nishant Vass, Vice President at ICICI Securities. Thank you and over to you!

Nishant Vass: Thanks Rituja. Good day everyone and thanks for joining us today for the conference call. The management is represented by Mr. Anshuman Singhania, Managing Director, Mr. Arun Kumar Bajoria, Director & President, International Operations, Mr. Sanjeev Aggarwal, Chief Financial Officer, Mr. A K. Kinra, Financial Advisor. Now I would like to hand over the call to the management for their initial remarks. Over to you Sir!

Anshuman Singhania: A very good afternoon everyone and a very warm welcome to JK Tyre Q1 FY2022 earnings call and thank you all for joining us today. I am Anshuman Singhania, Managing Director. I have with me Mr. Arun Kumar Bajoria Ji, Director & President - International Operations; Mr. A K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of our company. I hope all of you continue to be safe and good health.

The first quarter of the new fiscal year started on subdued note with the resurgence of the second wave of the pandemic, which impacted the demand. The first month of the quarter that is April saw a very good demand scenario in all the market segments, but unfortunately the same got dampened because of the rampant surge in the COVID cases in the month of May followed by lockdown across the country, which adversely impacted business operations. In such adverse condition our team continued to put together best efforts to fulfill the demand in the market. In the month of June with the gradual reopening of the market, demand started to pick up pace in a progressive manner. Despite these challenging market conditions, JK Tyre delivered a resilient performance and registered a topline of Rs.2,618 Crores a growth of 130% over the corresponding period. During the quarter, we continued our focus on export market to also make up for the subdued demand in the domestic market, which resulted in achieving the highest ever quarterly export sales of Rs.476 Crores and continued to expand its presence in the technologically demanding market like Europe and North America.

In the pursuit of our efforts to strengthen our market presence, we added more than 200 dealers and 10 brand shops during the quarter. The company expanded its presence in the OEM through new business approvals for supply of tyres to Hyundai, Alcazar and TVS Apache. This association gives us a sense of satisfaction and demonstrates our strength of product offering in the market. Further the company continues to supply good volumes to some of the highest selling SUVs in the country such as Hyundai Creta and Kia Seltos. We have also partnered with Ki-Mobility Solutions, which is part of the MyTVS Facility having 1000 plus outlets and it is leading digital aftermarket platform. This will help us to strengthen our retail market presence and deliver best practices in the aftermarket tyre service business. We also entered into partnership with JBM Auto for supply of best in class radial tyres fitted with smart device called TREEL which is TPMS System for their Citylife (CNG) and Ecolife electric buses.

Further the tyre industry witnessed a steep input cost pressure, which impacted the operating margin, but for which our profitability would have been higher. Nevertheless, we are taking judicious price increase across all product segments. We believe that raw material prices should stabilize from the second half of this fiscal year. Parallelly, we are focusing on measures to improve the overall operational efficiency.

JK Tyre is a future ready organization and has set out an ambitious target for ensuring both advanced and sustainable manufacturing practices. We are continuously investing in automation and digitalization with an objective to enhance customer delight and manufacturing efficiency. The company has also been working on the tech enabled manufacturing excellence and transformation for improvement in yields, throughput, energy consumption and quality. The company has taken-up digitalization in a big way to boost customers trust. Our AI based digital claim system is addressing customers issue way faster than earlier. We are transforming internal systems and processes through digital enablement bringing in operational efficiencies and cost rationalization.

On the market outlook, we are expecting improved market conditions with the higher vaccination level and sharp recovery in economic activity. The recent July month auto sale has also indicated better offtake from the OEM as the demand has started to pick up in the rural markets on the back of good monsoon and preference for personal mobility. Most importantly the company continues to give utmost importance to the well-being and safety of its employees, business partners and society. In this direction, we have launched an initiative JK CARES Program to support the family of employees who have lost their life during this pandemic on three fronts financial, educational and health insurance. Now I would request BajoriaJi to talk about the performance of JK Tyre and subsidiary companies.

Arun Kumar Bajoria: Thank you very much Anshumanji for such an enlightening brief about the highlights and the performance of Q1 of FY2022. The quarter certainly was challenging one in terms of subdued demand and unprecedented rising input cost. Now with regards to the JK Tyre subsidiaries, both the subsidiaries continued to contribute well in terms of overall revenues and profitability. Cavendish Industries Limited recorded a growth of 112% on year-on-year basis which stood at Rs.687 Crores with EBITDA of Rs.57 Crores which is more than four times on a year-on-year basis. JK Tornel Mexico has performed exceedingly well in this quarter, the market conditions have improved and we are expecting a better performance going forward. Tornel's financial performance was better in terms of good growth on year-on-year basis and quarter-on-quarter. It achieved a turnover of Rs.471 Crores with profitability at EBITDA level of Rs.42 Crores in this quarter. There was a good volume growth on the back of robust demand from Latin America and the US markets. With excellent stronghold in domestic market and leveraging on its brand equity, the company became the top supplier, number one supplier to mass merchandisers like Walmart, Chedraui and others in Mexico. Now I would request AggarwalJi to brief about the financial performance of this quarter.

Sanjeev Aggarwal: Thank you AnshumanJi and BajoriaJi. Coming to the performance of Q1 FY2022 the total consolidated sales for the quarter is Rs.2,618 Crores as compared to Rs.1,138 Crores in the corresponding quarter, registering an increase of 130% on Y-o-Y basis. The capacity utilization was more than 80% during the quarter. The replacement segment along with exports were the key revenue drivers during the quarter. Export revenues were recorded at Rs.476 Crores vis-à-vis Rs.137 Crores in Q1 last year, which is a significant increase on Q-on-Q basis and on Y-on-Y basis. On Q-on-Q basis this is approximately 32%. Now on the profitability front EBITDA was recorded at Rs.289 Crores on consolidated basis. EBITDA margins was 11.1% to be precise in Q1 FY2022. As already discussed profit margins contracted on sequential basis due to steep rise in input cost although we tried to offset that to some extent. Finance cost reduced by 17% on a consolidated basis, i.e., approximately Rs.23 Crores on Y-o-Y basis due to lower average interest rate and lower borrowings. Cash profit stood at Rs.182 Crores and profit after tax stood at Rs.44 Crores. JK Tyre's two operating subsidiaries Cavendish and JK Tornel have also performed well and have significantly contributed to the performance on consolidated basis. We have already circulated our earnings presentation which is available on our website as well, so I would imagine that you have gone through that to get more information and clarification about the company's results. Now we are open to take questions and would be happy to take it one by one. Request I-Sec team to take it further. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly on the Cavendish side you mentioned that EBITDA was around Rs.57 Crores right?

Sanjeev Aggarwal: That is correct.

Ashutosh Tiwari: I think EBITDA margin in Cavendish is around 8.3% in this quarter versus 14.3% in the last quarter, so I think compression in Cavendish EBITDA margin is much more than what we saw in the JK standalone, so any particular reason behind that?

Sanjeev Aggarwal: As we have talked about steep increase in the raw material prices which is one reason for the reduction in margin in both the companies JK Tyre and CIL. But in the case of JK Tyre we could pass on the increase in the raw material prices to the OEMs, but in the case of the replacement market we were not able to fully pass on the increase in the raw material prices. Because there is no sales to OEMs in Cavendish that is the main reason for lower margins as compared to JK Tyre.

Ashutosh Tiwari: How is the trend in price increases post June, July or this month, what are the price increases we have taken?

Sanjeev Aggarwal: We have taken a price increase in the month of July and we are expecting to take some more price increase to offset the increase in the prices of raw material, so I think over a period of time, there will be sufficient increase in the finished goods prices to negate the increase in the raw material prices.

Ashutosh Tiwari: How much was the quantum of increase in July and what you are planning going ahead?

Anshuman Singhania: The quantum of the price increase was 2% to 3% and going forward we will increase our price to almost in the range of 5%.

Ashutosh Tiwari: You are talking about this month or next month?

Anshuman Singhania: It is in the second quarter.

Ashutosh Tiwari: Lastly, on the demand side you said that in June there was decent recovery and how you are seeing the trend in July, is it July better than June is it going back to say Feb- Mar levels?

Sanjeev Aggarwal: Yes, absolutely so similar kind of the capacity utilization and the kind of the sales volume which we saw in the month of March last quarter and it is much better than June quarter.

Anshuman Singhania: I would like to add here is that this quarter compared to April, May, June, the July, August, September quarter looks better because the OEMs which were subdued in the first quarter particularly, the CV segment is coming back and in the passenger car it is nearing good utilization with OEMs.

Arun Kumar Bajoria: Plus the vaccinations level also helping situation.

Ashutosh Tiwari: It was around 95% utilization level in Q4, so are you going to go back to that level in this quarter?

Anshuman Singhania: We are already there at 95% plus so hopefully the entire quarter should do well and in that range only.

Ashutosh Tiwari: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital Private Limited. Please go ahead.

Basudeb Banerjee: Thanks Sir and congrats for delivering almost Rs.180 Crores of cash profit even in such a COVID impacted quarter. Few questions, I just wanted to understand, as you said close to 5% price hike total in Q2 so typically what happens as the price hike happens with a lag point of time comes, when the raw mat stops increasing and the conversion happens of the requisite price hike so the gross margin starts recovering, so post 10%, 12% raw material basket increase in Q1 at current juncture how do you see the raw mat inflation for Q2 and when do you see conversions of raw material basket and requisite price hikes?

Anshuman Singhania: We see that the raw material prices are on a rise and in Q2 also we could see there will be price increase in terms of the raw material, we will see that to whatever maximum possible we could offset our raw material price increase through judicious price increase in the market.

Sanjeev Aggarwal: As I said earlier in fact we have already taken a price hike in the month of July and further price hike would be taken to offset the increase in price for raw material, so exactly how much percentage that we have already indicated approximately 4% to 5% price hike should hopefully negate.

Basudeb Banerjee: No, actually I was trying to understand as per your sourcing strategy how much raw material basket inflation you see in Q2 over Q1 because already the raw material gross margin compression, so definitely it will be great to see no more gross margin compression, but ideally your steady state margin of 16% needs gross margin to expand backed by 400, 500 basis points, so just from that angle I was trying to understand.

Sanjeev Aggarwal: The price increase in raw material has already taken place in the last about six months' time and we could see further increase in this quarter. It difficult to predict at this point as the full impact of increase in raw material prices and selling prices can be noticed only in subsequent quarters, due to the levels of inventory maintained. Lastly, we will try to offset the raw material price increase by increasing the prices for our products.

Basudeb Banerjee: Any impact you see because of OEM mix reversal because as you rightly mentioned OEM demand was low especially for trucks in Q1 can that be a deterrent for overall margin in next couple of quarters?

Arun Kumar Bajoria: The short answer to your questions. Yes, OEMs have now opened up much more and they are going to lift more tyres and therefore it is definitely going to add to the topline and also the bottom-line.

Basudeb Banerjee: Sure and last question like during Q4 last fiscal not only you but many companies saw a major bump up in their working capital and same reduction in working capital favoring cash flows so has that reversal already started now?

Sanjeev Aggarwal: **S**ome bit of working capital increase is there with the volumes increase so we are likely to maintain working capital at this level going forward and I think whatever reversal was to happen that has already happened in Q1.

Basudeb Banerjee: Consolidated capex outlook around Rs.200 Crores to Rs.250 Crores is remaining the same?

Sanjeev Aggarwal: We have already talked about in our last discussion also so we are going to spend almost about Rs.200 Crores on the debottlenecking capex and that will be over the period of two years or so.

Basudeb Banerjee: No change in that, so that deleveraging we should continue.

Sanjeev Aggarwal: Absolutely you are right we should continue to see the deleveraging happening as we go forward.

Basudeb Banerjee: Especially it is heartening to see at 11% margin also your annualized profit would be much higher than the capex one?

Anshuman Singhania: Just going back to your first question regarding the mix I would only like to say that JK Tyres is one of the largest suppliers in the OEM for TBR and as long as the OEM picks up in the commercial segment which we are hoping that compared to Q1, Q2 would be better so there will be a mix change that will help us improve the margins.

A K Kinra: With regard to working capital, I just add one thing that the raw material cost has gone up and the unit values have changed. So, there is a slight increase in the working capital levels.

Basudeb Banerjee: Sure Sir thanks Sir that is it.

Moderator: Thank you, The next question is from the line of Samir Desai from PH Capital Limited. Please go ahead.

Samir Desai: Export as a percentage of sales is 30% as of now going ahead what will be the target looking forward?

Arun Kumar Bajoria: How did you calculate 30% Sir?

Arun Kumar Bajoria: Well of course I do not think that level will be maintained going forward depending on how much percentage improvement in the economy because obviously we are trying to cater to both domestic and export markets.

Samir Desai: This is regarding next one to two years what will be the revenue EBITDA margin can give us guidance about that and about debt outlook and capex requirement in the next two to three years?

Sanjeev Aggarwal: So as far as the guidance on the EBITDA margins is concerned we do not give any guidance because it depends on how the market is panning out but just to give you an idea that the markets are looking better and there is a study that tyre sector is likely to grow for the next four to five years at a CAGR of 12% so we will try to maintain our market share so that we are well in that position to provide good profitability in the company.

Samir Desai: What about debt outlook and capex requirement in the next two to three years?

Sanjeev Aggarwal: As far as the debt outlook is concerned, I can tell you that we have the scheduled repayment of debt of about 45% reduction over the next three years on long-term loan basis so if we continue to deleverage ourselves in that same session then hopefully we will be maintaining very healthy ratios and the debt equity will come down.

Samir Desai: Any export roadmap?

Sanjeev Aggarwal: On the exports front, we have strategy to grow our exports to geographically derisk our business and leverage this between India and Mexican businesses, So developing technologically advanced market specific products and we will continue to create brand image for our products in the international markets so we will definitely focus on the export market as well but how much growth we can have from that market but this is giving a good traction in the market.

Anshuman Singhania: Here I mentioned from corresponding quarter FY2021, we have been able to increase our export 3.5 times and from previous quarter we are higher by 32% and we continuously focus on export and as SanjeevJi also said that to derisk we are focusing on different geographies in the world catering from India and Mexico to develop world class products for advanced markets such as US and LATAM.

Samir Desai: What about China plus benefit are you look going forward for tyre industries in India particularly JK Tyre?

Arun Kumar Bajoria: What is China plus. Are you talking of imports from China?

Samir Desai: Yes Sir.

Arun Kumar Bajoria: Imports from China are still on a restricted basis particularly in the truck bus radial as well as in passenger car radial only those sizes which are not made in India are being allowed to be imported and therefore at the moment. I think we are not so much worried on the imports from China as long as the present import policy continues because after all you will appreciate that this is also dependent on the long-term import policy of the government from time to time.

Anshuman Singhania: Further, there is an antidumping duty from China on the radial tyres and from the Southeast Asian country there are import restriction helping the domestic players to increase footprint.

Samir Desai: Okay thank you very much for the questions.

Moderator: Thank you very much. The next question is from the line of Lakshminarayanan from ICICI Prudential Asset Management. Please go ahead.

Lakshminarayanan: Two questions, first is that if you look at for the whole year how do you think the industry is going to perform both in terms of margins as well as exports that is my first question, second question is in case your realization per tyre is Rs.100 in OEs for TBR and what is the realization per tyre you actually get compared to that in the aftermarket is it 105, 110 how is it so these are my two questions?

Anshuman Singhania: The outlook of the industry looks good and bullish and based on higher vaccination levels we see that sharp economic revival will happen due to government focus on infrastructure development. We definitely see that the improvement in sales in both our replacement and OE segment will happen. We see over next three to four years we are very optimistic and expect a healthy growth for the industry which is expected at a CAGR of more than 12%, the major factor for this driving will be focusing on the government on faster infrastructure development then the scrappage policy will also play a very critical role as we go forward from the next year March onwards and personal mobility so these are the positives for the industry going forward.

Lakshminarayanan: In terms of Chinese imports you assumed that you will remain in the same way for the full year?

Anshuman Singhania: We are hoping that antidumping duty will continue and even the restriction on import is likely to continue from Southeast Asian countries.

Lakshminarayanan: Got it and about my second question which is in terms of realization.

Anshuman Singhania: As we have already explained there has been an impact on the overall profitability because of the raw material increase and this has been really unprecedented, we have not seen such a steep raw material increase in the last 20 years. So to negate that as I told you in the previous quarter and the quarter going forward we will be increasing our price judicially and to negate the price increase in the raw material, apart from that we are working with our plans and manufacturing for optimal efficiencies, we are also working on digital front, we are giving a big thought to increase our channel outreach, in fact we have already in the first quarter we have been able to inch up to 200 channel partners increase our footprint there and we are also increasingly engaging ourselves to get more approvals in the OEMs so for the whole year we are very bullish.

Lakshminarayanan: What is the realization difference between OE and replacement in TBR assuming OE is approximately let us say 100 you index it right so what is the price differential in general and how that has actually compressed or expanded in the last one year?

Sanjeev Aggarwal: Price in the replacement versus OEM?

Lakshminarayanan: Yes.

Sanjeev Aggarwal: Generally, the price in the replacement is higher than OEM

Lakshminarayanan: Sir my question is whether it has compressed whether that delta between the OE and replacement has it come down or is it actually gone up?

Arun Kumar Bajoria: It continues to be around the same level as it was last year. Delta has not compressed or delta has not gone up either. See this is a standard phenomenon which has been continuing, it is traditional so I do not think there is any change in that.

Lakshminarayanan: Thank you.

Moderator: Thank you. The next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: Can you help us with what was the capacity utilization for FY2021 instead of production that we did it, if I understand our capacity is around 6.3 lakh tonnes right?

Sanjeev Aggarwal: Broadly you are absolutely fine but we normally talk about in numbers so we have total capacity of 32 million tyres so it could be better if we talk about numbers.

Akshay Satija: If you can help me with what was the production in 2021 and utilization?

Sanjeev Aggarwal: There was a capacity utilization of 75% in FY2021 and in Q1 this was 81% overall.

Akshay Satija: If I look at our EBITDA we are doing 25000 EBITDA per tonne approximately so what would be your roadmap to do 8 lakh tonne production can we do like Rs.40000 EBITDA per tonne at that levels?

Sanjeev Aggarwal: As I said earlier, we do not talk about volumes in terms of tonnage so you can calculate based on the capacity you just mentioned in terms of MT so the numbers are in front of you if you can kindly work out.

Akshay Satija: Okay one more question I had, what kind of capex do you think is required in the next five years so may be Brownfield or Greenfield what is our capex versus the industry's capex, what would be our R&D spends from five years point of view?

Sanjeev Aggarwal: As we discussed earlier, we have not yet announced any new capex except for the debottlenecking of some of our capacities at the plant level so that we are going ahead and we are committed to spend almost about Rs.200 Crores over the next two years period so debottlenecking the capacity and then down further we will see as the demand pickup and we are certain about the kind of demand situation and with the economic activities picking up we will definitely see what kind of capex should be considered so we have not yet estimated any such number over the next five years but we would definitely try to increase our market share.

Anshuman Singhania: Just adding to SanjeevJi we have able to significantly spent on our R&D in JK Tyre and in the next five years we will continue to spend on R&D.

Akshay Satija: What will be the capacity increase from the debottlenecking that we are talking about?

Anshuman Singhania: 10% to 15%.

Akshay Satija: Okay got it thank you.

Moderator: Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: I have two questions first is on Mexico operation sequential margins are more or less maintained or marginal drop of around 100 basis despite commodity cost increase so Sir want to understand the RM cost effect what we have seen in India is not visible in Mexico operation so is it a price hike we have taken there or product mix change or in commodity cost impact is not in there that operation?

Arun Kumar Bajoria: You are absolutely right both the things have happened first of all we have been able to take higher price increase in Mexico as compared to what we have been able to do in India and secondly the product mix has also undergone higher product the passenger car radials are now being produced more and as we have increased our capacity with effect from October 2020 so both these things have been able to help us to maintain our operating margin percentage.

Mitul Shah: Sir my second question is on India operation particularly standalone JK Tyre operation almost 450 basis margin impact is coming purely from the raw material side, we have done good control on the employee cost as well as other expenses but this RM impact you highlighted already around 2% to 3% increase and another 4.5% to 5% price hike so nearly 7% to 8% price increase whether we will take care of entire this RM cost impact or still you think margin would remain under pressure or it will get restored in coming quarters?

Anshuman Singhania: You are right the price increase we are indicating is for current quarter. Going forward for Q3 and Q4, we will see further opportunities to increase prices increase. Also, parallelly we are working very hard on improving operational efficiencies, cost reduction measure throughout the company. Digitalization is another key thing which we are working on apart from cost reduction and better working capital management. We are introducing new products which will be highly profitable in the replacement market as well. Our export thrust also is continuously going up.

AK Kinra: Regarding R&D spend I have just been able to get some numbers. The spend during the last year was about Rs.87.25 Crores which is equivalent to 1.4% of the turnover now if you go by the last five years it is almost the same kind of percentage that we have been spending year after year.

Mitul Shah: Lastly this price hike of 4% to 5% we are targeting that is in JK as well as Cavendish across the brands and across the products right?

Anshuman Singhania: Yes.

Mitul Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets Pvt. Ltd. Please go ahead.

Kaushik Poddar: Our margin is lesser than the leaders namely MRF and Apollo in the last quarter also for Apollo and MRF it is in the range of 12.5% to 13% and for us it is around 11% and now as a leader when can we get to that kind of level?

Sanjeev Aggarwal: As we have been making all our efforts as mentioned by AnshumanJi, we have been working on improvement in operational efficiencies, we are working on cost reduction measures and therefore we are expecting that with some more time we should be able to come along with the competition and our margins should improve subject to product-mix and the market scenario. There could be some reason w.r.t to products in which we were not present earlier, i.e., two- wheeler and three-wheeler which is a highly profitable segment.

Kaushik Poddar: Can we expect that by the end of this year you should be having industry leading margin comparable to the other two?

Arun Kumar Bajoria: MRF has a higher volumes in two-three wheeler wherein margins are higher. Secondly, just want to add that in these difficult times the most important is the sweating of the existing assets in a way you maximize the output from the available capacities.

Kaushik Poddar: Okay thank you at least your objective is clear.

Moderator: Thank you. The next question is from the line of Garvit Bakshi from Navodya Enterprise. Please go ahead.

Garvit Bakshi: Most of my questions have been answered. I just have one more question. Sir as you already said that the price has been increased and will be increased even more due to the raw material price increase I just wanted to ask what is exactly the raw material price increase like synthetic rubber and can you please give me your bifurcation if possible?

Sanjeev Aggarwal: I can answer you very broadly. The average raw material price for natural rubber in the range of about 170 plus, carbon black approximately 89, steel cord in the range of about 155, synthetic rubber is also in the similar range. So, this is the kind of range, we have been working. The second question which you asked about was an increase in the prices right?

Garvit Bakshi: Yes.

Sanjeev Aggarwal: As of now the view is that the raw material prices should stabilize from H2 onwards and if that be the case then we will be able improve upon our margins significantly.

Garvit Bakshi: Okay Sir that is about it. Thank you.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: In this presentation you mentioned the concept of green tyre so just wanted to understand does they have entire carbon black be replaced by silica or by what percentage, how is the pricing and acceptance in the market for the same?

Anshuman Singhania: We are very proud to say that we are the only tyre company that is publishing sustainability report. We are working very judicially and consciously in the green tyre technology which increases the fuel efficiency thereby conservation of natural resources. As mentioned in the presentation, we have used eco-friendly materials, which is reducing the emission and increase the lifecycle of the product with low rolling resistance up to 40%. Today, we have one of the lowest rolling resistance tyre to supply and we are globally benchmarked and certified by the European test agency, which is ECE R117.

Shashank Kanodia: Sir in terms of raw material used to manufacture, is there anything difference with the quantum that we use normally use, let us say the composition of carbon black, synthetic rubber or so and so forth?

Anshuman Singhania: See the composition of the raw material is by and large the same but it is being substituted by some greener raw materials which have less carbon emission characteristics and less pollutant characteristics to safeguard the environment.

Shashank Kanodia: In that case you must be substituting some amount of carbon black with silica right or carbon black quantum remains the same?

Sanjeev Aggarwal: We would not like to disclose what we have been using but as AnshumanJi just mentioned that broadly the composition remains the same.

Anshuman Singhania: But we have using some high performance polyester and hybrid fabrics.

Shashank Kanodia: Understood Sir. Second has there been any reduction in cost of debt for us given that our ratings must have improved given that the entire good amount of debt last year and how much is our average cost of debt?

Sanjeev Aggarwal: There has been reduction in the rate of interest because of the rating improvement and also with the very hard kind of negotiation which we did with our lenders. The average of rate of interest is sub 7%.

Shashank Kanodia: Sir given that there is increase in working capital requirement in the business given that raw material prices have increased drastically so what quantum of debt reduction can we see this year, last year we did something like Rs.900 Crores right which is the best ever in the history?

Sanjeev Aggarwal: As I mentioned earlier we have already seen some increase in the working capital recently because of the increased raw material prices and the inventory levels particularly in first quarter, but I think from now onwards there will not be much increase in the working capital, as we are already working at almost about 95%-96% capacity utilization and as far as the debt reduction is concerned, we could see reduction of about Rs.600 to 700 crores.

Shashank Kanodia: Sure Sir. Understood. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Sir in recent interview the senior management has indicated I think some interview given by Raghupati SinghaniaJi he said we would reduce the debt by 45% which is close to let us say Rs.1500 crores next 3 years and at the same time we aim to double our revenue in the next 5 to 6 years so just try to understand what kind of peak revenue we can do from our existing capacity one and second do double our revenue do we need any capex and how do we fund that capex if we are on track to reduce our debt?

Sanjeev Aggarwal: So two things, one is that there is a discussion about 45% reduction so that we are talking both from the present level long-term loan in the next three years, and this is Scheduled debt and we are very optimistic and hopeful that the profitability should be good and we should be able to accelerate this debt reduction further. The second part is of course at present the capacities are sufficient to give us some about 30% increase in the total revenues over Rs. 9000 Crores which we did last year. That is the kind of capacity we already have and we will have to of course go for some extension in capacities to increase revenues further. We have not yet decided about the expansions and the capacity increase and we will have to raise some debt to fund a part of those expansions in addition to internal accruals. We hope it will be done in such a way that all leverage ratios and the financial ratios will be within acceptable levels. We would be able to expand our capacity to fulfill our aspiration to double our revenues.

Arun Kumar Bajoria: Debt reduction as Mr. Aggarwal has mentioned is of the term loans as per the existing schedules because we are paying almost at the rate of 15% per annum at the end of three years we would have retire 45% of the existing term loans as for the present repayment schedule.

Chetan Phalke: The term loans will go down by 45% and then again we have to go for further debt whenever the capex plan is announced, any idea in which category we will go for further capex in passenger line, two-wheelers or truck tyres or we will convert our existing capacities into OTR or farm tractors or something like that?

Sanjeev Aggarwal: We have not yet finalized our plans and we will see how the markets are panning out but two areas that we can see the TBR and also the passenger.

Anshuman Singhania: OTR as well as farm tyres all these sectors will have to be taken care of, right now we are increasing our output and as rightly said that all these will have to be seen depending upon the market situation.

Arun Kumar Bajoria: It all depends on how the demand goes. We will certainly expand in areas where the demand is good and robust.

Chetan Phalke: I had one more question on the industry so now let us say the imposed GST era let us say truck was doing some 200 kilometers odd per day now they have started clocking 350, 400 kilometers from articles that we read does it have any impact on the replacing market will it increase the velocity when the market in aggregate terms will go up for trucking bus because the replacement cycle has started is that understanding correct?

Arun Kumar Bajoria: Yes you are right the demand of the tyres in the replacement market should go up.

Chetan Phalke: But have we witnessed that because the number of kilometers has already gone up in the last three or four years per day in average term?

Anshuman Singhania: The demand is likely to pick up as the infrastructure development goes up in the country.

Moderator: Thank you. The next question is from the line of SB Bhaiya, an Individual Investor. Please go ahead.

SB Bhaiya: I just wanted to know how are the demand supplies now you are planning out in the next two to three years based on the capacity announced by you and your competitor especially for TBR segment?

Sanjeev Aggarwal: See very broadly as mentioned this earlier the demand situation is very good in the next three to four years and as per some of the estimates the tyre sector is likely to grow at about 12% CAGR so with that kind of a growth I think the company's revenue should double in the next four-five years' time period.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: I just have one question on the industry you were just looking at top 25 tyre companies globally and all four Indian majors are already in top 25 so can you give Indian companies an advantage in terms of cost leadership and can we start exporting in a big way. Do you see opportunities opening up in that space or can we see more traction on that front going forward?

Anshuman Singhania: Thank you this is a good question, definitely Indian manufacturers in India have got an advantage from rest of the world because the tyres which are also competing in the rest of the worlds are with Chinese and many other brands and our quality has been received very well of the Indian brands.

Now from last year to this year there has been an increase in terms of export from India to the rest of the world. There are a few things in terms of logistics costs and some of the infrastructure supports when I mean infrastructure which is in terms of labor reform, power subsidy and other big items which government's intervention can help us become more competitive for the rest of the world. Currently, in the short-term there has been a lot of mismatch in terms of shipments, in terms of vessel sailing into India and the freight rate has gone even four times, five times higher so that has become not a competitive scenario but in the long-term with export story for India is as I told you is there government intervention then there is a fantastic case which export get double or triple even for that matter.

Chetan Phalke: You are talking about sector itself; the sector itself can triple going forward over the next decade also the export sector?

Anshuman Singhania: Yes you are right.

Chetan Phalke: I think the Chinese companies are exporting about $18 billion only to the US so we are just wondering what is it that Chinese companies are so competitive is it the logistics or is it the subsidizing or what is it that they are able to ship it so far and still grab such a large number of market share that is what we are trying to understand?

Anshuman Singhania: Actually the answer is in your question. There is a huge amount of government subsidies and that is why they have been able to compete globally.

Chetan Phalke: Except of subsidy they do not have any other advantage?

Arun Kumar Bajoria: The size is also helping them, the installed capacities are much, much higher and of course the number of tyre manufacturers in China to our mind is almost about three to four times the number of plants that are exist in India so all that has made a difference over the years, that is a different matter than how many are working and how many are closed, we will not be able to discuss this in the investors call.

Chetan Phalke: Okay that is it from my end Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand over the conference call to the management of JK for closing comments.

Sanjeev Aggarwal Thank you very much, the company is looking forward with an optimism in the market and we shall try to improve our performance, operational efficiencies and focus on the replacement as well as the export markets going forward. Thank you very much for joining this call.

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