JK Tyre & Industries Limited
Q3 FY2022 Earnings Conference Call

February 05, 2022

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Moderator: Good morning, Ladies and gentlemen. Welcome to the JK Tyre & Industries Limited Q3 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. I now hand the conference over to Mr. Basudev Banerjee, Vice President at ICICI Securities Limited. Thank you, and over to you Sir!

Basudev Banerjee: Good morning to everyone. Thanks to everyone for joining the call and thanks to JK Tyre management for allowing us to host this call. I like to introduce the JK Tyre management. We have with us Mr. Anshuman Singhania - Managing Director of JK Tyre, Mr. Arun K. Bajoria - Director & President of JK Tyre, Mr. Sanjeev Aggarwal - Chief Financial Officer and Mr. A K. Kinra - Financial Advisor. I would like to hand over the call to Mr. Anshuman Singhania for his initial comments and then we will move to Q&A. Thanks. Over to you Sir!

Anshuman Singhania: Thank you. Good morning to everyone and a warm welcome to JK Tyre's Q3 FY2022 Earnings call and thank you very much for joining us today. I am Anshuman Singhania, the Managing Director. 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. I wish you all a very Happy New Year 2022.

The year 2021 ended on a positive note of recording highest ever quarterly sales by JK Tyre crossing Rs.3,000 Crores mark for the first time. This has been achieved along with the highest ever export of Rs. 484 Crores for Q3 FY2022 taking the total export to Rs. 1,414 Crores during the nine months, which is up by 75% on year-on-year basis. We are the largest exporter of on-highway tyres to USA. Going forward, in line with our strategy to gain higher volumes, we will continue to expand our presence in the technologically demanding markets like Europe and North America with market specific products like trucks, bus and passenger car tyres.

Domestic market continues with the strong momentum of demand for TBR, LCV radial and SCV radial tyre in the CV Segment. OEM registered a high single digit growth in CV segment; however, the non-availability of semiconductor chips and logistics disruption continue to impact the PV demand which in turn affected PCR tyre demand from OEM during the quarter.

Further the farm segment sale in this quarter is impacted due to high base of last year; and delayed or very heavy rainfall in various geographies. The industry expects momentum to recover in the coming months on account of the good progress of Kharif crop procurement. This will bring liquidity in the hands of farmers.

We are optimistic on the outlook of the tyre industry and believe there will be a good growth in demand across all market segments given the expected economic activity going forward and waning-off of the pandemic. Further, we expect robust demand in the domestic market with boost in economic activities emerging from strong infrastructure spending by the government, including multi-model connectivity initiatives and government's agriculture productivity improvement initiatives through technological and digital advancements, announced in the budget. This will lead to increase in rural demand and improvement in overall market condition and consumer sentiments.

JK Tornel has also contributed significantly to the highest ever revenue during the quarter on the back of good demand in American markets.

On the financial front, JK Tyre registered a growth of 11% in the topline over the corresponding quarter which stood at Rs. 3,084 Crores. The industry continued to witness unprecedented increase in input costs which has impacted the operating margins. The unabated increase in the input cost has been partially offset by some price increases. We intend to increase our selling price again to neutralize the impact further. Parallelly we are also taking rigorous measures to improve the overall operational efficiency to improve margins.

Energy conservation as a drive is the core to our value system for moving towards the green manufacturing. On the renewable energy front, we have achieved excellent milestone in terms of our power mix, which stands at 55% through renewable sources. We will continue to increase our share of renewable energy. Our efforts on thermal front have also yielded good results and we have replaced over 18% of the coal by biomass, which is substantial and it is a significant step towards green energy.

I am happy to announce that recently JK Tyre has received the CII Active Customer Engagement Award 2021. This is the matter of great pride and shows that we are on the right path towards our mission - **"To be customer's obsessed company, customer first, 24/7"**.

Further we have achieved very encouraging feats in our businesses.

1. Three of our units are now rated 5-star for the Globe of Honor awarded by the British Safety Council, this is on the top of last year award of “Sword of Honor” given to all our units.

2. ET Iconic Brand Award 2020-2021, second time by Economic Times.

3. Brand of the Decade 2021 by Brand Advertising Research and Consulting, Asia and Herald Global

4. Golden Feather Award for the Best Digital Marketing Campaign “Zindagi ke Pahiye” and the best brand campaign for the ranger series.

5. JK Tyre has been recertified as a 'Great place to work’ and also featured as India’s best workplace in the Auto and Auto Component Industry Category for the Year 2021.

Most importantly, the company has achieved vaccination level of almost 100% of its employees for both doses and During the COVID third wave JK Tyre has placed the highest emphasis on safety and wellbeing of the employees, business partners and society for continuation of the business as well as livelihoods.

Now, I would request Bajoria Ji to talk about the performance of JK Tyre and Subsidiaries Company.

Arun K. Bajoria: Thank you very much Anshuman Ji for this brief highlight and the performance of Q3 for FY2022.

Now, with regards to the JK Tyre subsidiaries’ performance both the subsidiaries continue to contribute well in terms of overall revenues and profitability. Cavendish Industries Limited recorded net revenues of Rs. 720 Crores in Q3 FY2022 as compared to Rs. 788 Crores in Q3 of FY2021 of corresponding quarter. EBITDA stood at Rs. 32 Crores in Q3 and we are happy to share that CIL that is Cavendish, got approval from M/S Ashok Leyland for regular supply of TBB, TBR and LCV bias tyres, tubes and flats, in addition to the other OEM approvals which CIL was able to get last year.

JK Tornel, Mexico has performed well and has achieved over 100% revenue growth from Rs. 727 Crores to Rs. 1,534 Crores during the first nine months of the fiscal. During the quarter, JK Tornel achieved a turnover of Rs. 521 Crores as compared to Rs. 364 Crores which is an increase of 43%, further EBITDA was recorded at Rs. 46 Crores, an increase of 7% on year-on-year basis.

Despite increased raw material cost the profitability margins at JK Tornel have improved by 560 bps during the nine months period ending 31 December, 2021, mainly due to price increases. Profit before tax stood at Rs. 34 Crores and profit after tax stood at Rs. 19 Crores in Q3 FY22.

JK Tornel increased its market share in passenger radial from 7% to over 10% in this fiercely competitive market comprising of international players in the tyre industry, also JK Tornel have highest market share in mass merchandising sales like Walmart, Chedraui, etc.

Taking advantage of higher customs duties on Chinese and other Asian tyres, JK Tornel penetrated into USA successfully in the first year itself. JK Tornel continued to record highest online sales in Mexico using social media platforms, Facebook, Instagram. The brand salience of both Tornel and JK Tyre was at its highest by way of tunnel advertising, radio campaigns including participation in LATAM countries viz., Columbia, Brazil etc.

Now I would request my colleague Mr. Aggarwal to brief about the financial performance of this quarter.

Sanjeev Aggarwal: Thank you Sir. Let me highlight the performance of Q3 FY2022. The consolidated sales were recorded at Rs. 3,084 Crores as compared to Rs. 2,776 Crores in the corresponding quarter, registering an increase of 11% on Y-o-Y basis. The capacity utilization was around 89% during the quarter, all the market segments contributed to every growth.

Exports revenues were recorded at Rs. 484 Crores vis-à-vis Rs. 332 Crores in Q3 last year, an increase of 46%. In the nine months of FY2022, our exports have grown by approximately 75% over the corresponding period that is from Rs. 808 Crore last year to Rs. 1,414 Crores this year.

Profitability at EBITDA level was recorded at Rs. 281 Crores on consolidated basis. EBITDA margins stood at 9.1%. As already discussed, profit margins contracted due to unprecedented rising input costs. Cash profit stood at Rs. 177 Crores and profit after tax stood at Rs. 54 Crores.

Finance cost in the nine months period of FY2022 has reduced by 12% from Rs. 361 Crores to Rs. 318 Crores reduction of Rs. 43 Crores on Y-o-Y basis. Additionally, we are following strict, disciplined and efficient cash management with lower borrowing costs. The leverage ratios of the company remain at comfortable levels. We have been continuously focusing on deleveraging; we have reduced long term loans of Rs. 475 Crores during the nine months period in the current fiscal.

Our long-term debt is estimated to reduce by Rs. 1,400 Crores which is about 45% in next three years by the year 2025 from the present level of these Rs. 3,200 Crores.

We have already circulated our Earnings Presentation which is available on our website as well as on the stock exchange website. Now we are open for question and answer and would request and ask questions one by one please. Thank you.

Moderator: Thank you. Ladies and gentlemen, 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, what is the net debt levels of December?

Sanjeev Aggarwal: Net debt level as December 31, 2021 is about Rs. 4,800 Crores including the working capital of Rs. 1,850 Crores.

Ashutosh Tiwari: Rs. 1,850 Crores is the working capital?

Sanjeev Aggarwal: Yes.

Ashutosh Tiwari: You mentioned that overall utilization level is 89%, what is the utilization in the Cavendish during the quarter?

Sanjeev Aggarwal: Overall, it is 89% and for Cavendish it is about 82% and this is now presently has gone up to about 90%+ again, but for the last quarters it was slightly lower.

Ashutosh Tiwari: If I look at Cavendish and which is probably the lowest cost tyre from our side in the market of TBR, despite the low pricing we have seen a big drop in volumes, I think last year this quarter we were already around 95% utilization level and now we are down to 82%, so can you highlight what is happening because I think because of the pricing pressure in the market, inflation and everything, costs going up, I think I would assume that fleet operator will prefer a low cost tyre but in our case we are not seeing a solid Cavendish utilization level, so can you explain why this is happening?

Arun K. Bajoria: Thank you very much. First of all, I must tell you that there is no low-price tyre from CIL as such but yes, we do manufacture some Tier-II tyres to compete with the Tier-II tyres of our other competitors that is one clarity that I want you to have. Secondly, the production was certainly affected in the month of September to some extent and in the month of October to a little extent, we had some labor disturbance in the 2-3 wheeler section and therefore some affect in the overall production tonnage and therefore the effect of some low sales to that extent. Thank you.

Ashutosh Tiwari: You mean to say that there is no demand issue for Cavendish, this is only a production issue in 2-wheeler and 3-wheeler tyres in September?

Arun K. Bajoria: In addition, I must again clarify that the OEMs have not been very bullish and they were working at almost about let us say 50%-60% during these last three quarters, because of the sluggishness in the OEMs offtakes. We obviously got affected at CIL in the two-three-wheeler tyre, which we supply in the replacement as well as to the OEMs.

Ashutosh Tiwari: How do we see replacement demand especially the truck radial segment in this quarter in January-February versus Q3 November-December as of today?

Anshuman Singhania: We very bullish on the demand going forward, we are very optimistic on the outlook for the tyre industry and we believe there will be good demand growth across all the segments and given the expected economic activities going forward and the COVID waning off, further we expect that robust demand in the domestic market with the boost in economic activity emerging from strong infrastructure spend by the government including multi-model connectivity initiatives, the government's agriculture productivity improvement initiatives, so all these will definitely give a boost to the rural demand and improve the overall market conditions and consumer sentiments. In the export market, antidumping duty on China products in USA and other markets continue, so this will also give boost to the Indian tyre industry.

Ashutosh Tiwari: My question was more specific to say are we seeing improvement in January and February already this is expectation which the demand will improve?

Sanjeev Aggarwal: Yes, we are seeing an improvement in January-February and certainly March onwards things should improve further.

Sanjeev Aggarwal: One more thing which I would like to clarify that as we have also seen in Q3, our revenues have gone up by almost about 11% and it is only because of the pressures on the margins because of the input cost inflation, the margins were lower otherwise I think the demand is continuing and it will continue we see a very good demand growth in Q4 and as Anshuman Ji said rightly just now that, there is a very good emphasis on the infra and other things, so in near term the demand growth is expected in mid-teens level and going forward also this is likely to continue for next two-three years.

Ashutosh Tiwari: On a serious note I think last year prices are up by almost 10%-11% versus the order last year I think the entire growth that we are talking about is probably a large chunk would have come from just price increase and also from exports, so I think it looks like that probably volumes in the domestic market would have declined Y-o-Y growth end by price increase exports for us?

Sanjeev Aggarwal: I was talking about the overall company on a consolidated basis whether it is coming in from the export market or from the domestic market, so the things are looking very good and particularly in the domestic market this was my view but you are right there is some impact of the increase in prices. Also the increase in prices in the last quarter is only about 2%-3% approximately to offset the price hike on the raw material price and the outlook is quite positive and this we have been saying for the last several quarters also. Going forward we see that because of various initiatives by the government and pick-up in the economic activities.

Ashutosh Tiwari: Okay, thanks and all the best.

Moderator: Thank you. The next question is from the line of Bharat Bhagnani from Living Root Capital. Please go ahead.

Bharat Bhagnani: I have a couple of questions. Given the raw material basket that we have right now, how much was price increases we need to take to get back to our better operating margins?

Anshuman Singhania: The raw material input prices increasing unabated, so in the last one year, the impact of raw material price increase on the selling price has been approximately 23% which has been partially pass on about 60% and we seek every opportunity to increase our selling price again to neutralize the further impact.

Bharat Bhagnani: Anshuman Ji, in the last quarter that you were talking about under review, what was the price increase taken by the company?

Anshuman Singhania: Approximately 2%.

Bharat Bhagnani: The second question is that previously as a company you said that we would reduce the debt by about 40%, long-term debt by 40% by FY2024 that seems to have moved forward by one year to FY2025 and we increased it to 45%, so I mean are we looking at doing some more expansions and what is the share?

Arun K. Bajoria: We will definitely, I have also said that we have been working on the expansion plans and I think Anshuman Ji would like to comment on this.

Anshuman Singhania: As we have been already saying that the company has been taking up the debottlenecking program to for approx. Rs. 200 Crores to unleash the PCR capacity and plus Rs. 100 Crores of maintenance capex annually. Furthermore we are taking up an expansion of TBR capacity at an estimated cost of about Rs. 240 Crores which shall be implemented in phases and shall be completed by March 2023 as this will enhance our capacity by 342,000 tyres per annum.

Bharat Bhagnani: And this is at CIL?

Anshuman Singhania: Yes.

Sanjeev Aggarwal: I will answer the second part of this question. You are right that we will be repaying 45% of the long-term debt by FY2025. During first nine months period, we have repaid Rs. 475 Crores long term debt.

Bharat Bhagnani: Okay this is taking into account the expansion that you spoke off?

Sanjeev Aggarwal: This is what we have estimated on the basis of the present debt, which as per schedule and for the future project financing, we are in the process of finalizing our plans and we will come back to you.

Bharat Bhagnani: Okay.

Just as an information, if you can tell me what would be the exact figures for March FY2022 and additions in the steel wheels, express wheels and truck wheels in these three month period?

Anshuman Singhania: So, there we have definitely added our channel partner, so we are roughly around 700 brand shops which are steel wheels, express wheels, farm express and truck wheels and addition to that we have retread centers to the tune of about 55 and then we have 6000+ dealers in our network.

Bharat Bhagnani: Any additions that are planned already during the pipeline for the next three months or next six months?

Sanjeev Aggarwal: Brand shop are you talking about or the dealers?

Bharat Bhagnani: Brand shops.

Anshuman Singhania: We have a continuous plan month-on-month and this is an ongoing process.

Bharat Bhagnani: Because we see that some other competitors' companies have much higher proportion of brand shops than we have so we feel that as investors I mean it adds to the piping power when we have our own exclusive brand shops for customers?

Anshuman Singhania: It may hold true or may be not depending on each individual's companies' policy but as we told you earlier that we are continuously increasing our own brand shops plus our dealer footprint in terms of expansion.

Bharat Bhagnani: So, we are focusing more on the dealers right now to increase the numbers of dealer because there has been a good addition of dealers?

Sanjeev Aggarwal: Yes, you are right. In the last nine months period, we have added almost about 550 dealers, so our focus is the appointment of dealers right now and also continuously expanding our exclusive shops.

AK Kinra: It is because of this expansion of the network that you have seen the enhanced sales for the last 7-8 quarters, a lot has been contributed because of the expansion of the network, so that has been very key benefit of it.

Bharat Bhagnani: Okay, that is all from my side and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Congrats on reasonable numbers in this challenging quarter. My first question is on the volumes during Q3 at a blended level?

Anshuman Singhania: On consolidated basis, we have increased our revenue by 11% and though there has been a lot of shutdowns in the OEMs particularly in the October-November-December months. There has been shutdowns in OEMs in various categories viz, trucks, passenger and two-three wheelers and as well as farm, that has definitely impacted a certain part of our volumes and also there has been an impact of volume in the aftermarkets on account of COVID as well. This has led little accumulation of inventory dealer inventory but we are very hopeful that volumes will pick-up as as the COVID is waning off, the economy is opening up and the core sector has performing well in steel, cement and other commodities. So there will be a lot of volume push going forward.

Jinesh Gandhi: Okay. Can you share the volume growth or decline number for the quarter?

Sanjeev Aggarwal: In fact, in terms of the volumes as you talked about TBR, which is our major revenue contributor, the same has grown by high level of single digit and in other segments there is a slight kind of a flattishness.

Jinesh Gandhi: Secondly with respect to the capex within that we are investing in conscious manner on the growth path, what would be the cash flows during 2023?

Sanjeev Agarwal: For the expansions you are talking about?

Jinesh Gandhi: Yes, expansion and maintenance both put together what will be the cash flow impact of capex?

Sanjeev Agarwal: As we have said earlier that we have been taking up the expansion plans in a gradual manner. Rs. 200 Crores of debottlenecking which is undergoing at the moment, cash outflow will happen over a period of two years in FY2022 and FY2023. In the case of the expansion plan for TBR, the total expansion is about Rs. 240 Crores which will be implemented in phases and the overall project will be commissioned over the next 15 months to 18 months period. So the amount will be spend over the next one and a half years period.

Jinesh Gandhi: One and a half years, got it and lastly you indicated about the price hike of 2% in Q3, how much have we announced so far in Q4?

Anshuman Singhania: As we mentioned, 60% has been already passed on and we will be passing-on the balance in this remaining quarter to the extent possible.

Jinesh Gandhi: Sir, any increase taken in January-February so far?

Arun K. Bajoria: May be if you do not mind, these are very specific operational action plans and we will kindly appreciate that it may not be fair to ask and also fair on our part to give out everything like this, please.

Jinesh Gandhi: Okay, no worries. Thanks.

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

Mitul Shah: Thank you for taking my question. Anything sizeable on intersegment revenue within CIL and JK?

Sanjeev Aggarwal: As we have been exporting in the American markets and therefore we have exported through our subsidiary company JK Tornel, so some amount of exports from JK Tyre and from CIL aggregating to Rs. 140 Crores is the intercompany sale.

AK Kinra: But in any case, at the consolidated level this is eliminated**.**

Mitul Shah: On the India side basically I am asking about between CIL and JK earlier we used to send from JK to CIL?

Sanjeev Aggarwal: This is Rs. 100 Crores from CIL to JK Tyre.

Mitul Shah: Okay, Sir second question is on the Mexico side, can you throw some more light in terms of any further scope for margin improvement due to restructuring or it is already done apart from whatever benefit will get from the raw material in the coming quarter, margin got impacted this time because of the RM side but anything on the other cost parameter?

Arun K. Bajoria: Yes, as I have just mentioned to you that there is a growth of already 43% in our Mexico operations in Q3 and overall as I was mentioning that we have increased our revenues by 100% and on the call of your margin improvement, yes we are taking continuously steps and for example, we have two plants of bias and we have merged them into one plant and therefore the cost of economy as well as merging the overhead reduction is all taking place, we have also taken some price increase with effect from February 1, 2022 and these are absolutely ongoing continuous management exercises to keep saying how to further improve margins as and when there is an opportunity.

Mitul Shah: Sir, lastly on the export side, it is now become sizeable close to 20% now in consolidated level also it is more than 20%, so can you give broader break up or growth parameters for key two-three regions?

Anshuman Singhania: Our export as I have mentioned that our export performance is continuously growing and our achievement export growth has been over 46% on Y-o-Y basis and in nine months Y-o-Y basis 75% growth, we see that the America has been very robust in terms of growth which includes Mexico, US and Canada then we have even the Middle East and Asian region which has given ourselves growth and these are the some of the growth areas which export has been able to do well.

Mitul Shah: Sir, can you give ballpark number for this how much would be America and how much would be this Middle East and any other major contributing country?

Anshuman Singhania: We will divide it into two categories only, the American continent is approximately 50% and the balance 50% includes Europe, which includes Asia and Middle East.

Mitul Shah: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Rishabh Shah from Anubhuti Advisors LLP. Please go ahead.

Rishabh Shah: Thank you for the opportunity. Sir my question is what percentage of the sales growth was contributed by the price hike and the raw material cost increase and volume growth?

Sanjeev Aggarwal: Can you repeat your question please?

Rushabh Shah: How much percentage of the sales growth was contributed by volume growth and price hike?

Anshuman Singhania: The growth in terms volume increase would be around 60% and around 40% would be through price increase in nine months of this fiscal.

Rushabh Shah: Okay Sir. Thank you.

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

Shashank Kanodia: Thanks for the opportunity. With this debottlenecking and calibrated expansion of the TBR segment, what kind of incremental revenues were expected of this Rs. 240 Crores of capex?

Sanjeev Aggarwal: The expansion cost for TBR is about Rs. 240 Crores and we will get approximately Rs.500+ Crores of revenues from the TBR expansion. Normally in the tyre industry the revenue to capital cost ratio is almost 1:1 but in this case because we have already incurred capex on long lead items, with some additional capex, we will get revenues of Rs.500 crores.

Shashank Kanodia: Okay and what will be the same figure for debottlenecking exercise for which we intent to spend Rs. 200 Crores?

Sanjeev Aggarwal: Similarly, in the case of PCR, the increase is through debottlenecking and unleashing of capacities, the turnover to cost incurred ratio is expected to be much better. So we are expecting this to be about 2:1.

Shashank Kanodia: Okay, so roughly Rs. 900 Crores to Rs. 1000 Crores of incremental revenues we can expect from the expansion plants, right?

Sanjeev Aggarwal: Yes, both the plans.

Shashank Kanodia: Both, so currently we can attain a peak revenue of Rs. 13,500 and plus this Rs. 500 Crores-1000 Crores we can do Rs. 14,500 kinds of peak revenues, right?

Sanjeev Aggarwal: There is a capacity utilization of around 90% at present, so we can expect peak revenue to even higher.

Shashank Kanodia: So, at max Rs. 15,000 odd Crores is the peak revenue that we can do?

Sanjeev Aggarwal: You can assume so.

Shashank Kanodia: Secondly, with the kind of calibrated price hikes that you are doing the system in the raw material price increase, what is the sustainable margin for us in the India operation as well as for the consolidated level?

Sanjeev Aggarwal: This all depends upon how much price increase is taking place in the case of raw material and how that increase we will be able to been pass on the customers and this is the phenomenon which is prevailing in the industry, so we can expect better margins in mid-teens going forward.

Shashank Kanodia: In the long-term 11%-12% should be at least the minimum range of sustainable margins, right?

Sanjeev Aggarwal: Although nobody can comment on the margins because this is very difficult to predict but the sustainable margin should be in the range of mid-teens.

Shashank Kanodia: At the end, over this quarter I think raw materials largely have stabilized?

Arun K. Bajoria: No, we are seeing unabated increase even now they are on the rise may be on a lower scale but I can only tell you to satisfy that we are working very hard to improve our margins further and it should be possible as you said 11%-12%, now you know exact specifying percentage may not be possible but certainly we will try to even better these numbers.

Anshuman Singhania: In terms of our we are enhancing our efforts to improve our efficiency in terms of manufacturing such productivity, lower energy, water consumption and reducing waste and increase in our digital AI based tool in our manufacturing and marketing function also reinforcing our sale of premium tyres such as Smart tyres and launching premium tyres going forward like puncher proof tyres and high-end tyres like Levitas. We have recently launched smart tyres which is gaining a lot of volume growth plus our mix also we are changing and we are focusing on premiumization particularly in the PCR and the TBR segment.

Shashank Kanodia: Sir one last question, in the initial remarks you lead it to greater exports because of in position of anti-dumping duty and Chinese tyres, so is it reason phenomena and since when has these duties been imposed if you can throw some light?

Anshuman Singhania: On American markets, Chinese anti-dumping is approximately been about two years, so that has definitely helped rest of the world to cater to America including India.

Shashank Kanodia: In the recent past are we witnessing kind of sourcing strategy from the American counterparts which has led to good amount of increase in exports or any price competitiveness that that we have or anything?

Anshuman Singhania: We are scanning opportunity, we are for sourcing tyres for the exports, so we are always evaluating opportunities in that respect.

Shashank Kanodia: Sure, and one last thing to Sanjeev Ji, last year 2021 ending a net debt was Rs. 45 odd Crores, right and that debt increased to Rs. 4800 Crores as of December 2021, is it correct?

Sanjeev Aggarwal: Actually, you are right, in fact, the total long-term debt has been continuously going down in line with our strategy to deleverage. As, I explained even in my last discussion that the operation levels have gone up, capacity utilization have gone up from about 75% to 90% this year and also because of the steep price hikes all across for all the raw materials, so the working capital levels have gone up but I can tell you that the total amount of the working capital borrowings have remained almost at the same level as we were earlier through strict control on the working capital management, credit control and efficient management. Hopefully this should remain at this level going forward. As I said that 45% of the long debt reduction which we are targeting for the next three years through schedule repayment which will bring down the overall debt by a large amount.

Shashank Kanodia: Last Year you had a Rs. 1400 Crores of debt on the long-term basis, right, so the overall debt numbers any target over the next three years which also includes working capital limits that you have?

Sanjeev Aggarwal: Debt target of Rs. 1400 Crores is on account of long-term debt reduction which we have targeted for reduction in the next three years out of the overall debt of Rs. 4800 crores assuming the working capital remains at the same level even at the higher level of operations, so Rs. 4800 minus Rs. 1400 will be the total amount of debt by the end of FY2025.

Shashank Kanodia: Okay. Understood, thank you so much and wish you all the best.

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

Mitul Shah: Thank you for follow up opportunity. My question is on the raw material side, raw material basket as such, how much increase we have witnessed in Q3 over Q2, so how much increase Q-o-Q?

Sanjeev Aggarwal: We have finished about 2% to 3% increase in terms of quarter-on-quarter, preceding quarter.

Mitul Shah: So almost similar amount we have taken price hike then margin compressions seem to be much higher sequentially?

Mitul Shah: Okay and lastly Sir, in terms of domestic side replacement which segment do you see revival faster compare to the other segments in this next two months or may be FY2023 beginning?

Arun K Bajoria: Yes, so we see that the revival in the CV segment in the commercial segment to come back because the year as a whole there was a lot of muted sentiments in the commercial segment but as the economy opens up and the COVID tends to go down and even the OEM is from the CV segment is looking much better, so I think the CV segment will do well then in terms of we are still the chip shortages is continuing in the PCR segment but PCR segment will also do well because the footfalls now to the dealer shops and buying sentiments will come in place. Similarly the 2-3 wheeler as well will to my mind will be better because the rural market uptake will happen with the rural spending coming back and we are waiting for the farm sector which has been really dull this whole year to pick up with the good onset of monsoon and the Kharif procurement as I told you in my speech, so that should help in getting back somewhat in the farm sector as well but overall overarching the economic activity looks buoyant and this will thrust the overall sentiments in various categories.

Mitul Shah: So even in farm segments replacement side also it was down by 23%-24%, do you expect improvement it would be lowered decline, or it would start reporting growth on the replacement side?

Arun K Bajoria: Going forward that decline will I think come zero-zero level and then it will start showing the improvement.

Mitul Shah: Thank you.

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

Arun K. Bajoria: Thank you very much once again for participating in the Q3 FY2022 earnings call and I hope we have been able to satisfy the questions being asked and on behalf of the company, I wish you all a very Happy New Year and a Prosperous New Year. Thank you once again.

Anshuman Singhania: 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. You may now disconnect your lines. Thank you.