"JK Tyre and Industries Ltd.
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the JK Tyre & Industries Q4 FY2021 results 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. Nishant Vass, Vice President at ICICI Securities Limited. Thank you, and over to you, Sir!

Nishanth Vass: Thanks, Mallika. Good day everyone and thanks for joining us today for this call. From the management side, we are represented by Mr. Anshuman Singhania – Managing Director; Mr. Arun Kumar Bajoria - Director & President; Mr. Sanjeev Aggarwal - Chief Financial Officer and Mr. A K. Kinra - Financial Advisor. Now I would like to hand over call to the management for their initial remarks. Over to you Sir!

Anshuman Singhania: Good morning everyone. A very warm welcome to JK Tyres Q4 FY2021 earnings call and thank you very much for joining us today. I hope all you are continuing to be safe and in a good health.. I am Anshuman Singhania – Managing Director and I have with me, Mr. Arun Kumar Bajoria - Director and President, International Operations; Mr. A.K. Kinra - Finance Advisor and Mr. Sanjeev Aggarwal – CFO of our company.

First of all, I would like to thank our customers, channel partners, vendors, bankers, and associates for reposing trust in JK Tyres which helped us in sailing through successfully in these unpredictable difficult times in achieving an excellent performance in FY2021. I am also thankful to our employees for keeping the morale high, surpassing target, and achieving record profit for the year.

As we have all experienced, it was a challenging year for the Indian economy and the company as a nation was under complete lockdown during Q1. During this period, our first priority was to ensure safety and security of our employees and we worked on mitigation plans. We revisited our systems and processes, increased communication with our customers and channel partners, initiated digitalization practices and focused on improving operational efficiencies and leaner cost structures. On the marketing front, we are delighted to inform you that during the financial year, we added more than 1400+ dealers and 90 brand shops to strengthen our presence across India.

On the OEM front, it is a good sense of satisfaction that our product received approvals of fitment in some of the country's largest selling car models such as Hyundai Creta, KIA Seltos, Maruti Swift, Wagon R etc., and many more approvals have come for the other product categories as well. As an outcome of all the above efforts, we could achieve a highest revenue and there was a remarkable increase in operating profitability over the last financial year. The highest cash accruals and better working capital management has resulted in substantial debt reduction approximately Rs.930 Crores.

Further, Q4 FY2021 was an impressive one in terms of the highest revenue from the operation; however, there was some cost inflationary pressures on raw material front, which impacted operating margins as compared to Q3 FY2021. The pressure is likely to remain in Q1 FY2022 as well. However, the company shall endeavor to offset the raw material prices increase by taking judicious price increase of its products, premiumization of product range, debottlenecking of plants and leverage on higher operational efficiencies.

The second wave has come as a major challenge for the industry; however, we believe the impact on the business operations is likely to restrict till Q1. Going forward, we expect normalcy to come from Q2 with slowdown in the COVID cases and higher vaccination levels. We are optimistic about the outlook on the tyre industry for the next few years on the back of government push for infrastructure and development plans. Voluntary, Scrappage policy and strong rebound in demand in all the vehicle segments post normalcy of the COVID situation.

Now, I would request Mr. Bajoria Ji to talk about the performance of JK Tyre and subsidiary companies.

Arun Kumar Bajoria: Thank you Anshuman Ji. A very good morning to all of you once again and I must say that Anshuman Ji has already given a very enlightening brief about the highlights and the performance of FY2021.

Just to add further that JK Tyre’s pre-emptive response and preparedness has resulted in this remarkable all-round performance of JK Tyre along with its subsidiaries Cavendish India Limited and JK Tornel in terms of operations, market reach and the financials despite lockdown conditions.

CIL JK Tyre domestic subsidiary has given strong operating performance and successfully turned around with highest ever revenues and profitability on the back of high-capacity utilization, control on costs, reduced working capital and introduction of newer products and of course higher operating efficiency.

JK Tornel, JK Tyres International subsidiary resumed operations in July 2020 as lockdown conditions in Mexico were much more severe and lasted little longer than in India. Despite the eight and a half months working in Mexico, sales were almost similar at Rs.1135 Crores against Rs.1190 Crores in FY2020. Excellent strong hold in domestic replacement markets and leveraging its brand equity, JK Tornel has also become the number one supplier to mass merchandisers in Mexico like Walmart, Chedraui and others. Furthermore, it has significantly improved its position in exports to Latin American markets as well as to the advanced markets of USA from the Mexican subsidiary.

During the COVID times, Tornel also enhanced productivity by nearly 22% in the passenger car radial output. JK Tornel order book position is also very healthy. We are fully geared to face challenges emanating from rising raw material prices, as you have just heard our Managing Director explain through higher productivity, some price increases which will be very judicious and premium product offering and such other strategic actions. Thank you.

Sanjeev Aggarwal: Thank you, Bajoria Sir and Anshuman Sir. Good morning, ladies, and gentlemen. I thank you all for joining the call today. Coming to the performance of Q4 FY2021; the total consolidated sales were recorded at Rs.2,945 Crores as compared to Rs.1,803 Crores in the corresponding quarter registering an increase of 63% on a Y-o-Y basis.

The capacity utilization was close to 97% during the quarter. The replacement segment along with the OEM segment were growth drivers. Operating profitability increased by 119% to Rs.472 Crores on consolidated basis as against Rs.216 Crores in Q4 FY2020.

EBITDA margins on consolidated basis expanded substantially by 410 basis points to 16% in Q4 FY2021 as against 12% approximately on Y-o-Y basis on the back of higher volumes, higher operational efficiencies and strict cost control measures undertaken by the company. There was a significant reduction in finance cost to the tune of 22% during Q4FY21.

Profit after tax stood at Rs.195 Crores. JK Tyres two subsidiary companies Cavendish and JK Tornel as Bajoria Ji mentioned performed very well and have significantly contributed to the sales and profitability on consolidated basis. Cavendish achieved the highest ever revenues and profitability in FY2021.

In FY21, overall revenues increased by 4.5% on y-o-y basis to Rs.9,145 Crores as against Rs.8,753 crore. EBIDTA in absolute terms stood at Rs.1,349 crore as against Rs.1,016 crore, an impressive increase of 33% over FY20 on the back of improved operational efficiencies, benign raw material for majority of the financial year and strict cost control undertaken by the Company. EBIDTA margins on consolidated basis expanded by 310 bps to 14.8% as against 11.6%.

The company reduced the net debt by approximately Rs.930 Crores and finance cost by 15% in FY2021. Net debt to EBITDA significant ratio to measure the performance improved to 3.32x in FY2021 which was earlier at 5.33x in FY2020. The net debt to equity improved to 1.61x in FY2021 vis-à-vis 2.23x in FY2020. We are presently focusing on prudent capital allocation and tighter working capital management to ensure deleveraging.

I am happy to inform you that the company's credit rating has been upgraded by both the rating agencies CARE rating and India Ratings to A with stable outlook in the case of JK Tyre and to A minus with stable outlook in Cavendish Industries Limited.

Further the Board of Director's recommended a dividend of 100% meaning Rs.2 per equity share on the face value Rs.2 per share in the Board meeting just concluded on May 19, 2021

Thank you and now let us open the floor for question and answer. Thank you very much.

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: Congratulations for decent performance during the quarter. First question is on what kind of RM increase we expect in Q1 versus Q4, and any price increase we have taken from April onwards?

Arun Kumar Bajoria: We are hoping that the price increase at this time between Q4FY2021 and Q1 of FY2022 is likely to be in the range of about 10% to 12%, so we are taking all actions to offset this by taking some price increases as we have said in our opening remarks.

Ashutosh Tiwari: But have you taken any price increase so far?

Arun Kumar Bajoria: Yes, we have. We have taken small price increase in the month of beginning April and let us see going forward.

Ashutosh Tiwari: It was in which segment?

Arun Kumar Bajoria: It was in the commercial tyres and also in the passenger car radials.

Sanjeev Aggarwal: I would also like to add apart from price increase, we are also focusing a lot on the premiumization of the products, higher volume sales through debottlenecking of our plant and leveraging on higher operation efficiencies.

Ashutosh Tiwari: Second question is that you said that your plants are operating around 97% utilization level, so what was the level of utilization in TBR and PCR plant in Q4 and what kind of expansion we are looking to debottlenecking or if you have any other plant expansion?

Anshuman Singhania: I will take your last question first that, yes we were operating in Q3 and Q4 at utilization of 95% and we have prioritized to sweat our assets fully by way of increasing our operational efficiency and debottlenecking of our plants in one or two years to cater to the growing demand. We would be investing approximately Rs.200 Crores for debottlenecking of our plants over the two and two and a half years, which will be funded through internal accruals. The company is presently focused on prudent capital allocation and tighter working capital management to ensure faster deleveraging.

Ashutosh Tiwari: But what kind of expansion will happen through this capex?

Anshuman Singhania: As I told you that we have a lot of unutilized capacity because of certain equipment's to certain processes, which are missing, so debottlenecking of the capacity will unleash that sitting capacity which we are already are at.

Ashutosh Tiwari: I am asking about the quantum of increase to this debottlenecking, what kind of capacities will happen from say currently we are 32 million tyres per year?

Anshuman Singhania: It will happen to something like 10% plus.

Ashutosh Tiwari: Thanks a lot and I will fall back in the queue.

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

Basudeb Banerjee: Thanks, So broadly will it be right to assume that at 97% utilization you are on an overall basis, you are delivering close to Rs.3000 Crores of revenue, so post this 10% debottlenecking the peak revenue on your existing gross block can be in the range of Rs.13000 Crores to Rs.14000 Crores, will it be right to assume?

Anshuman Singhania: Somewhere around that yes.

Basudeb Banerjee: Surely and within this Rs.200 Crores of debottlenecking capex is this spread across 2 to 3 years as you rightly said, or it is only this year?

Arun Kumar Bajoria: Exactly, this is what our MD said just now, spread over about two year to two and a half years.

Basudeb Banerjee: And over and above that how much the maintenance capex one should look at?

Arun Kumar Bajoria: Another Rs.100 Crores.

Basudeb Banerjee: So, broadly consolidated overall capex of 200 Crores per year will be a right ballpark number?

Arun Kumar Bajoria: Absolutely around that, give and take Rs.10 Crores to Rs.20 Crores plus-minus.

Basudeb Banerjee: Thanks and second question, if we look at definitely you and your peer set, everybody suffered 350 basis points of gross margin deterioration over last quarter, surely one can see that this Q4 also there was a 10% kind of raw mat basket inflation and in Q1 also as you rightly mentioned 10%, 12% further wherein India kept as constitute almost half of the market and we are seeing very limited price increases from all the players even leaders like you or your placement and as you said also hardly there has been major price like in April and where we are two-third done in the quarter which implies another 300 basis points of gross margins deterioration potentially, structurally how we will see that at the industry in terms of pricing?

Arun Kumar Bajoria: You are right in your understanding, I would only like to add here that price increase is definitely there because of the cost pressure and saving the margin but as I said earlier that our focus on cost saving program and leveraging on higher operating efficiency and also in reaching our product mix to premiumization and even new product introduction which we have done as smart tyre and fuel saver tyre which is really gaining grounds, that is definitely on the cards and we are very optimistic that we would be able to pass on the raw material price increase to the market at an appropriate time.

Basudeb Banerjee: Any result of those premiumization aspects already getting reflected in this quarter raw material cost numbers?

Arun Kumar Bajoria: Yes, definitely. The premiumization is reflected in EBITDA absolute number and the premiumization is also reflective in our higher brand acceptance in the markets.

Basudeb Banerjee: So, basically premiumization may not get reflect in necessarily to raw material line item, it might get reflected through limited other expense, is that what you are saying?

Arun Kumar Bajoria: Yes, premiumization will be reflective on stronger operating margins.

Basudeb Banerjee: Thanks**.** That is all from my side.

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

Jinesh Gandhi: My question pertains to again on the capacity side given that we are already at about 97% capacity and we are looking to add about 10% through debottlenecking, as and when we decide for a bigger capex, what is the scope to add material capex at our existing operations either in JK Tyres or through Cavendish, is there scope of substantial brownfield expansion or will have to look at Greenfield expansion?

Arun Kumar Bajoria: There is enough area available in the JK Tyres in plants at Banmore and also at our other plant in Laksar but you see, it will all depend on how the economy shapes up and we will have to decide on the capex as you said material capex because ultimately as our Managing Director just explained we are already sitting on a huge capacity which is going to be sweated higher by the debottlenecking steps as we just explained to you and as and when it is necessary that we experience much better demand from the market actions will be taken suitably well in time.

Jinesh Gandhi: Okay and as and when you decide it will take what about 18 months for us to start operations from day zero for any Brownfield expansion?

Arun Kumar Bajoria: This is all going to be brown-fielding not green-fielding, so it should be shorter in terms of number of months and not necessarily 18 months, so I would say that much less than 18 months.

Jinesh Gandhi: So, what about 12 months, would that be fair?

Arun Kumar Bajoria: Yes.

Sanjeev Aggarwal: If I may have to add what Bajoria Ji said just now, we had taken up an expansion project in TBR in our subsidiary company Cavendish Industries Limited about two years ago and which is on hold for the time being because of the various reasons, but we had ordered for long lead items at that point in time, so it will take much lesser time and it could be about a year or so.

Jinesh Gandhi: Okay and what kind of capacity addition you are looking at Cavendish which was put on hold?

Sanjeev Aggarwal: The total amount of the capex which we were planning to incur was about Rs.590 Crores on the TBR side and on the tractor rear was approximately Rs. 85 Crores.

Jinesh Gandhi: Okay, is it Rs.590 Crores for TBR?

Sanjeev Aggarwal: Yes.

Jinesh Gandhi: Thanks, and all the best. I will come back in the queue.

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. Congratulations for very strong performance. I have question on your inter-segment revenue in JK Tyres standalone entity annual FY2021 revenue of Rs.6120 crore, how much is intersegment where in Cavendish sells to JK Tyre and JK Tyre sells to market?

Sanjeev Aggarwal: In fact, in 2016 when we had taken over, Cavendish from Birla tyre, there was no independent marketing network in CIL and subsequently we have created and strengthened the market network separately. Now, majority of sales are done independently by CIL, except sales of Rs.400 to Rs.500 Crores, is sold through JK Tyre on arms length basis.

Mitul Shah: Yes, Sir understood, second question is on the margin side, in case of Mexico operation, we were doing restructuring things last two years so is it complete and current margins are sustainable or there is a further sizeable scope for further improvement?

Arun Kumar Bajoria: The restructuring is complete and the existing margins are definitely sustainable in fact our effort is to further improve on these margins as I said that we have just taken actions on productivity increase so from the same assets that have been installed we are going to get another 22% more PCR passenger car radials, so obviously when you have higher production and you are sweating the assets more, your fixed overhead gets divided on a much larger number, so we hope to improve our operating margin by more percentage but I would not like to spell out that at this point in time but certainly yes to your question.

Mitul Shah: Sir lastly on the capex for FY2022 and debt reduction guidance for next two years?

Sanjeev Aggarwal: In fact, in this financial year as we informed earlier we accelerated the debt reduction and for the next financial year the long term debt reduction on long term basis will be approximately Rs.500 Crores and over the next three years we will repay around 45% of the long-term debt. On the capex side as Anshuman Ji mentioned earlier, annual maintenance capex is to the tune of about Rs.100 Crores in all our entities and for debottlenecking of our plants we shall be spending approximately Rs. 200 Crores over the next two and a half years.

Mitul Shah: Thank you.

Moderator: Thank you. The next question is from the line of Arun Kumar from Aries Investment. Please go ahead.

Arun Kumar: I just wish to ask the Managing Director how do you see the demand coming compared with the past six months or nine months because earlier quarters have been very strong, and they were like I mean the demand was so good that it was not seen in perhaps many years earlier also I would like to know that how would raw material costs impact the margins, and will you be able to pass them going on?

Anshuman Singhania: Yes, we see that the impact of COVID on the business operation is likely to restrict this till Q1, going forward we expect normalcy to come from Q2 with the slowdown in the COVID cases and higher vaccination level, we expect the strong pent-up demand coming in Q2 which we are seeing. We are also optimistic about the outlook of the tyre industry for the next few years backed by the government push for infrastructure sector, development plans, voluntary scrappage policy and the strong rebound of demand in all vehicle segments both normalcy of COVID situation should come. Now, going to your raw material thing, I think earlier that question I have already mentioned that there has been a commodity price increase and the company is endeavoring to offset raw material price increase by taking judicious price increase for its products, premiumization of product ranges, higher volumes through bottlenecking of plants and leveraging on higher operation efficiency.

Arun Kumar: Okay, so after the pandemic you are expecting a strong pent-up demand which would set things?

Anshuman Singhania: Yes.

Arun Kumar: Okay, that answers my question. Thank you.

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

Shashank Kanodia: Good afternoon Sir, and thanks for the opportunity. Sir, my question is on the debt front, so just wanted to confirm the gross debt as on FY2021 and this April Rs.4650 Crores odd, right?

Sanjeev Aggarwal: As of March 31, 2021, we had a net debt of approximately Rs.4500 Crores, this includes the short-term borrowings as well of about Rs.1800 Crores.

Shashank Kanodia: Sir, when you mention that in your presentation that we want to reduce our long-term debt by 45%, so it essentially means that of that Rs.2900 Crores of long-term debt you want to repay at least Rs.1300 Crores odd for the next three years, right?

Sanjeev Aggarwal: Approximately, Rs.1500 Crores of debt will get repaid in the next three years period.

Shashank Kanodia: Okay, and lastly on the tax rate I think we believe that we have shifted to the new regime, but still our reported tax rate is in extent of 30%. So, if you could guide us what will be the blended tax rate going forward?

Sanjeev Aggarwal: We have moved to the new tax regime in Cavendish whereas as in the case of JK Tyre we are continuing with the old tax regime because there is a MAT credit available in the company of huge amount. So, we will avail MAT credit first and then we will move to the new regime of taxes.

Shashank Kanodia: Okay, so that blended it should be roughly 30% - 32% product?

Sanjeev Aggarwal: Yes roughly around 29% to 30% approximately.

Moderator: Thank you. The next question is from the line of Neeraj Khaitan from VT Capital. Please go ahead.

Neeraj Khaitan: Congratulations for a great set of numbers. I wanted to understand, since natural rubber is an important raw material, how much of natural rubber is imported during this quarter or during the last financial year?

Arun Kumar Bajoria: It is about 40% imported and 60% is available locally.

Neeraj Khaitan: Thank you.

Moderator: Thank you. The next question is from the line of Mayur Milak from BOB Capital. Please go ahead.

Mayur Milak: Sir, just trying to understand, you said that the debottlenecking will add about 10% to your existing capacities. Now, as you are already at 97%, let us say the market grows by another 20% this year. Then is there a chance that we are looking at loss of market share because, we would not have adequate capacities to cater to that?

Arun Kumar Bajoria: First of all how do you say that market will grow at 20% Sir, which category are you talking about 20%?

Mayur Milak: I am not saying that I am just asking you that that hypothetically if that happens then will we be at the losing end, because we would not have that capacity to really cater to?

Arun Kumar Bajoria: Not exactly, I will tell you how. What we are right now doing that during these months we are also outsourcing some of the lower diameter tyres and therefore, as our Managing Director just said that we are premiumising, the premiumization is in terms of higher sizes and that option is always there with us. So, anytime any kind of demand shift takes place, or the demand goes up for whatever type of tyres w have that inbuilt adjustment capability, that is one and secondly as we have just explained 10% to 12% will be adding a huge number in terms of our capacity plus the non-utilized capacity, because this was an average thing. Overall, we do not anticipate any shortfall in the next one year – one and a half years and if something happens, we will be able to see the developments and then we will take suitable action as we have said earlier.

Mayur Milak: Alright great, and also trying to understand the whole dynamics of this industry. So, between let us say FY2020 and FY2021 imports of cheap Chinese tyres were completely out of the market and I am sure most of the Indian manufacturers got the benefit. Now, what I understand from the dealers is that while the replacement market was usually using the Chinese radial that got replaced by the Indian bias in terms of the pricing difference as well. Now, is that true (1) and if it is true, if normalization has happened post-COVID you do not expect the industry loss of market share again to the Chinese players?

Anshuman Singhania: Your understanding is very right, thanks to the government that they had put the restrictions and the restriction is still going on with China anti-dumping duty and their restricted list from the Southeast Asian country. But coming back to your question, if there will be a lot of demand due to infrastructure development activities where the bias tyres play a very active role and our bias tyres have really proven good mileages and durability. So, we feel that going forward our bias tyres will have a lot of edge in this market, and we have extensive network to service these tyres as well. So, serious players in the trucking sector and in construction sector are greatly looking at service as well. So, it is just not putting cheaper tyre and getting the business done. So, we feel that bias will have a very strong demand coming in as well which we have already experienced in the last six seven months.

Arun Kumar Bajoria: Mr. Mayur, I wish to add. You said that the tyres have been banned from China. I just want to add that in the commercial sector if the truck radials have been restricted in the sense that still one-third of the imports are still taking place against licenses and whatever. Therefore, it is not that we are completely out of any competition from Chinese truck/bus radials, I just want to see this and then they were coming at such a low price as you yourself said that the bias tyres were easily able to compete not only in the price but even in the performance, because you can appreciate that the cheaper Chinese truck/bus radial tyres will not give the kind of service at a regular truck/bus radial tyre would give and I will give it with that.

Mayur Milak: Fair Sir, allow me understand change in sales mix as well. So, just trying to understand that this year we believe that the growth of replacement would kind of be in the base, we saw about 20% growth last year and that would be in the base, so probably expect a typical long-term 8% - 9% kind of CAGR in the replacement market. But because we have had two bad years in the OE especially TBR, we expect a strong come back in the commercial vehicle segment which means the OE demand for CV tyres will probably be on the rise, probably more than 40% - 50% YoY also looking mathematically. So, when you shift tyres from replacement to OEs is not that an adverse margin mixes as well, I mean I want to believe that most tyre manufacturers probably make much better margins with the replacement market then with the OEs. So, how does that theory work?

Anshuman Singhania: You are right compared to last year our segment growth has been strong in the replacement market also on OEM front, going ahead as the CV market was just about picking up in the fourth quarter this unfortunate second wave has hit, so the plans if you see for the OEMs have gone little haywire with that plant shuts and all. But what we believe is that once the market opens up then the trucking segment will gradually pick up sales as opposed to passenger vehicle and this will all depend on the economic activities resetting itself. So, there will be a gradual move, but replacement market will be still strong, so this balance is not going to be seen at least for one and half years.

Mayur Milak: No, what I was asking was like say the normal long-term blend between OE replacement has been at 30% and 70% for the truck tyres. Now, I believe last two years this blend would have probably gone down to 15%–17% in favour of OE and about 80%–85% for replacement. Now, if you expect this to come back to the long-term 30%-70% kind of ratio will there be a hit on margins because margins with OE's are typically lower than what Indian companies make in the replacement market?

Anshuman Singhania: No, I would not say that the margins are going to be severely impacted because the reason is that lot of OEMs also are index based pricing. There is always a lag effect, but as I said that this effect of balancing will only take place in another two years not in the short-term for sure because the peak of the truck which we experienced in the month of March the industry reached its peak of the truck production at that point of time also we were able to comfortably cater to high demand of replacement as well.

Mayur Milak: Fair, alright. Thank you.

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

Akshay Satija: Thank you for the opportunity. Sir, my first question was regarding the Cavendish acquisition, I believe, we were actually going for a Rs.675 Crores, expansion in TBR and farm now that the situation has stabilized why not go forward and take that expansion?

Sanjeev Aggarwal: In fact we have shared in the last about 30 minutes that for the time being our focus is primarily on prudent allocation of the capital and we have been focusing on correcting the overleveraging situation. So, the company will take the decision to expand the capacity at the appropriate time. By that time we would create sufficient capacities through debottlenecking of our plants

Akshay Satija: I believe we have already done at similar TBR expansion in Cavendish itself and we are doing it for the second time, do we see any further scope for similar expansion in TBR in the Cavendish plant or this is the last time that we can expand at a lower cost. So, if possible Brownfield expansion was to be taken by anyone else, it would cost them somewhere around Rs.900 Crores to Rs.1000 Crores, but I believe we had everything in place, and we were just studying up the plant and machinery, so I did want to know that can we bring in another leg of similar expansion or then later expansions will be on slightly higher cost?

Arun Kumar Bajoria: So, for the time being falls as well as the time for expansion, time for implementing will be less and cost will be less.

Sanjeev Aggarwal: So, I will tell you. In fact this Rs.575 Crores of TBR expansion which we had planned earlier in Cavendish, this was a Brownfield project, and this was of course at a better cost than the Greenfield project and maybe because we have these utility equipments and other equipments available already, so we were setting it up at a better cost. But of course, the next expansions will be at full cost.

Akshay Satija: Sir, my final question was more of a book keeping kind of a question, so this year significant jump of somewhere around Rs. 300 Crores in other financial liabilities and what will be the cash flow at some payables that we have, could you just specify what this increase is in Rs.316 Crores odd?

Sanjeev Aggarwal: This is basically the other financial liabilities which got increased during the year because as we said earlier, we have appointed and expanded our network by 1400 plus dealers, so there is a business model which work on the security deposits, so that is the reason for the increase in other financial liabilities.

Akshay Satija: If you could just elaborate on this business model, just a little overview what this business model is for the dealers?

Sanjeev Aggarwal: Basically we take security deposits from the dealers and that is getting reflected there, it is a business model like in all these kind of businesses where the dealers are involved , they have to deposit some security and then they can churn the turnover and they can take the tyres on credit basis for some period of time and that is how they actually do the business, and we securitize our receivables.

Akshay Satija: Okay, thank you, Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Disha Sheth from Anvil Share & Stock Broking. Please go ahead.

Disha Sheth: Sir, I wanted to ask in FY2021 how much market share we have gained in truck/bus radial and passenger cars?

Anshuman Singhania: The exact numbers, I would not be able to give, but the truck/bus we have definitely gained the market share. We have also gained in our LCV, light commercial vehicle market share, we have gained market share even in the passenger line radials and in the tractor we have gained a significant market share and even in the OTR we have gained a good amount of market share and overall the company has gained good size of the market share in domestic market.

Disha Sheth: Thank you.

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

Kaushik Poddar: With the price increase you have affected over this quarter as well last quarter and as well as the premiumization that we have talked about, can we see a normalization of margin by the second quarter?

Sanjeev Aggarwal: If you are talking about the normalization of margins, it is very difficult to say what is normal margin, but in any case as there was some pressure on the margins in Q4 and the margins were down by about 2.5% - 3% levels. Going forward, in my opinion the raw material prices will settle down comparatively at lower levels. RM prices had gone up because of supply side constraints due to COVID and higher commodity prices, which in-turn are likely to cool down in near future. So, things will improve from Q2FY22 onwards and after the normalization of the situation of COVID, the demand will surge and the margins will improve further maybe from Q2FY22 onwards or at least it will remain at the level at which we are today.

Kaushik Poddar: So, by Q3 can we expect to back to say 17% - 17.5% margins?

Sanjeev Aggarwal: It is very difficult to predict the margin levels in today's market, but we do hope for the higher margins than is what it is today.

Kaushik Poddar: Thank you.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir, you talked about intersegmental sales from Cavendtwoish to JK Tyres standalone, whereas consolidated in the segment between India and Mexico say the amount of Rs.250 Crores in the current year versus Rs.100 Crores last year. So, the exports of India, has gone out to Mexico?

Sanjeev Aggarwal: That is correct, the exports from India to Mexico has slightly gone up.

Ashutosh Tiwari: And these are mainly TBR or PCR tyres?

Arun Kumar Bajoria: Both PCR and TBR.

Ashutosh Tiwari: So, like you say that Tornel already increased some capacity through debottlenecking around 22%, right?

Arun Kumar Bajoria: Yes.

Ashutosh Tiwari: Okay, and lastly one of the other companies which have plant in Tamil Nadu chain be they got a SIPCOT subsidy which was they were not receiving post move to GST regime because they earlier had that credit. So, they will also get something like that in this year from Tamil Nadu government from SIPCOT?

Arun Kumar Bajoria: Not, yet. We are in the queue. We are waiting.

Ashutosh Tiwari: 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 giving me opportunity again. Sir, I have question from your presentation in one of the PPT, on broad strategy/ We have highlighted increase in digitals and digital sale, and we have also tied up with Amazon this is what you have mentioned in the presentation. So, what were digital sales or online sales during FY2021 and secondly in growth strategy also we mentioned about the export to Africa, Europe, and Middle East we are increasing our reach and expanding network, so can you give more details on these parameters?

Anshuman Singhania: Well, the digital footprint we are using for selling, yes, as we have mentioned, our sales from the digital outlet as such is very, very low, but in the times to come as you know that the youth and the pandemic has really taught us how to digitally move and by goods and services, we believe that our digital footprint time to come will definitely get enhanced, was I able to answer your question?

Mitul Shah: Yes Sir, and on the export side?

Anshuman Singhania: Yes sorry, what was your question for your export side?

Mitul Shah: In our growth strategy we have stated that we have expanded network and increase in the reach in products in Europe, Middle East, and African countries specifically we have mentioned about these three regions. So, what exact strategy and what was the contribution from these three regions in FY2021 and what we are targeting?

Anshuman Singhania: You can add Bajoria Ji. I was saying that we believe in developing the markets internationally in the export market. So, we have sound potential for our products in these said markets in Europe, Australia and South Africa and we have developed specialized ranges in these areas. The margins are healthy, and the returns are very good and encouraging. So, going forward we will be intensifying our efforts as well in these markets for our products and brand. Bajoria Ji, would you like to add?

Arun Kumar Bajoria: Absolutely, you have bang on answer except that I wanted to just inform Mr. Mitul that it will not be right on our part to give you exact breakup of where we have increased in Europe, how much we have increased Africa and in Australia, so you will kindly respect that sensitivity.

Mitul Shah: Sir, my question is on how much it contributing to topline approximately and how much we are targeting?

Arun Kumar Bajoria: Well, as you know that the total exports contribute to roughly about 14% in this year of FY2021 and then FY2021–FY2022 we are making all efforts to increase this but then our overall topline will also grow. So, it should remain in this range of about 13% to 14%

would go up to about little less than 15%, let us see how the markets pan and how the economy stabilizes and takes off.

Mitul Shah: Thank you Sir, all the best.

Moderator: Thank you. The last question is from the line of Anand from Batlivala and Karani Research. Please go ahead.

Anand S: Thanks for taking my question. In this quarter we have given the highest performance from Mexico plant, the Tornel plant, what is the capacity utilization over there and what is the further scope of improvement?

Arun Kumar Bajoria: The capacity utilization in FY2021 has been just about 70% as I said in my opening remarks that we only work for eight and a half months. So, going forward our utilization in this FY2022 should be near 95% or so.

Anand S: For Q4 also it was about 95% or so Sir, my understanding is right?

Arun Kumar Bajoria: You asked me for Tornel isn't it?

Anand S: Yes Sir, JK Tornel?

Arun Kumar Bajoria: In JK Tornel Q4, it was close to 90%, yes.

Anand S: That was my question. Thank you.

Moderator: Thank you. I would now like to hand the conference over to the management of JK Tyres, for closing comments.

Sanjeev Aggarwal: Thank you very much everyone for attending this call and in fact as Mr. Anshuman Singhania, has already given the guidance that the future is looking quite bright for the next few years in the tyre sector. Let us hope for the best and we will overcome all challenges going forward whether it is in terms of the COVID situation or in terms of the raw material price increase and hope to maintain even better margins going forward. Thank you very much once again everyone and I thank Anshuman Ji, Bajoria Ji, and Kinra Ji, to guide our investor's . Thank you so much. Thank you ICICI team.

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