"JK Tyre & Industries Limited's Q2 FY'22 Earnings Conference Call"

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MODERATOR: **MR. NISHANT VAAS – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to JK Tyre Q2 FY'22 Earnings Conference Call. 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 would now like to hand the conference over to Mr. Nishant Vaas – Vice President from ICICI Securities. Thank you and over to you, sir.

Nishant Vaas: Thanks, Janice. 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 K. Bajoria – Director and President; Mr. Sanjeev Aggarwal – Chief Financial Officer; and 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: Thank you very much. Good morning, everyone and a very warm welcome to JK Tyre's Q2 FY'22 Earnings Call and thank you all for joining us today. I am Anshuman Singhania – Managing Director. I have with me Mr. Arun Bajoria – Director, President, International Operations; Mr. A.K. Kinra – Financial Advisor and Mr. Sanjeev Aggarwal – CFO of our company. I wish you all a very happy diwali and seasons greetings.

In the second quarter of FY'22, the company witnessed a strong demand in the replacement and OEM segment due to sharp recovery in the economic activities in India, reopening of the markets and improvement in consumer sentiments on back of festive demand and continued decline in the COVID cases. We witnessed good demand for our products in the replacement and OEM segment on the strength of much improved volumes in the truck bus radial and passenger car radial. The demand in OEM segment has also shown decent growth in this quarter resulting from higher volumes in CV and PV segment. However, the non-availability of semiconductor chips and logistic disruption impacted the PV demand which in turn affected PCR and LCV tyre supplies during the quarter.

We hope that the good progress in vaccination level across India and in the world will significantly improve the market condition in India and abroad. Further, with expected realignment and resolution of supply chain issues across the world will provide huge opportunities for us going forward. In pursuit of our effort to strengthen our market presence, we have added more than 340-plus dealers during the quarter.

We have recently launched Smart Tyre 360 degree campaign which has received very good response and has already crossed 50 million viewership on social media. The Campaign has won the Viral Marketing Award by the Economic Times. Smart Tyre sales is gaining ground. Further, our strategy for premiumisation of PCR tyres and truck and bus tyres is getting good traction in the marketplace.

On the export front, we continue to focus on export market and acheived an export of Rs.454 crores as compared to Rs.337 crores, registered an increase of 35% over the corresponding quarter. We believe that JK Tyre has become the largest exporter of MHCV tyre in USA from India in the Q2 FY'22. Going forward, in line with our strategy, we will continue to expand our presence in technologically demanding market like Europe, North America.

On the financial front, JK Tyre registered a growth of 31% in the top line over the corresponding quarter which stood at Rs.2,928 crores. As you would be aware, that the tyre industry is witnessing an unprecedented increase in the input cost which is impacting operating margin. However, the demand scenario is quite robust and therefore, we believe we shall be able to pass on the increase in the raw material prices to improve our margins in the coming quarters. Further, we are of the opinion that raw material prices would stabilize going forward which would ease the pressure of margin in H2 FY'22.

We are also taking rigorous measures to improve the our overall operational efficiency. The company is optimistic on the prospects of industry on account of increased consumer confidence, preference for personal mobility modes as well as overall national and international economic recovery, after the pandemic has subdued.

JK Tyre's mission to be green company has come a long way and today, it is considerably much greener and cleaner in terms of our product offering. The company continuous to focus on manufacturing more from less resource by way of reducing energy consumption, moderate greenhouse emission and adopting cleaner process and fuel. JK Tyre is also pioneer of creating green and smart tyre and has become the India's first company with a verified carbon footprint as per ISO 14064.

Most importantly, the company has vaccinated almost 100% of its employees for the first dose and shall continue to give utmost importance to the wellbeing and safety of our employees and their families and business partners and society.

Now, I would request Mr. Bajoria ji to take us through the performance of JK Tyre and its subsidiary companies.

Arun K Bajoria: Thank you, M.D. sir for the brief highlights and performance of second quarter of financial year 2022. 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 a double digit growth. Net revenues were recorded at Rs.733 crores in Q2 as compared to Rs.667 crores in Q2 FY'21 corresponding quarter, an increase of 10% on year-on-year. EBITDA stood at Rs.51 crores in Q2 FY'22.

JK Tornel Mexico continued its growth momentum and performed very well in this quarter. The market conditions have improved and we are expecting further improvement in performance going forward. Tornel's financial performance was better in terms of good growth on year-on-year basis and quarter-on-quarter basis as well. Tornel achieved a highest ever turnover in this quarter and is consistently doing monthly sales of over 500 million pesos, which in terms of Indian rupees would be Rs.181 crores per month. It achieved a turnover of Rs.542 crores as compared to just Rs.278 crores, an increase of 95% with EBITDA of Rs.53 crores, a 100% increase on year-on-year basis. Profit after tax stood at Rs.23 crores as against just Rs.6 crores in Q2 of financial year '21. There was a good volume growth on the back of robust demand from Latin America and US markets as well as Brazil. We are delighted to share that JK Tornel has bagged the prestigious order of Mahindra, North American unit for supply of farm tyres for their tractor production which is a sizeable business on sustained basis.

Now, I would request our CFO, Mr. Aggarwal to brief about the financial performance of this quarter.

Sanjeev Aggarwal: Thank you, sir, let me talk about the performance for Q2 FY'22. The consolidated sales were recorded at Rs.2,998 crores as compared to Rs.2,286 crores in the corresponding quarter last year, registering an increase of 31% on YoY basis. The capacity utilization during the quarter was around 85%. All the market segments contributed to the above revenue growth. Export revenues were recorded at Rs.454 crores vis-à-vis Rs.337 crores in Q2 FY'21 of previous year, an increase of 35%. Profitability at EBITDA levels was recorded at Rs.303 crores on a consolidated basis. EBITDA margin stood at 10.1%. As already discussed, profit margins contracted due to unprecedented rise in input cost recently. Cash profit stood at Rs.197 crores and profit after tax stood at Rs.65 crores. We were able to reduce the finance cost by about 14% from Rs.123 crores to Rs.106 crores, that is a reduction of Rs.16 crores on YoY basis for the quarter and reduced Rs.40 crores in H1 of FY'22, which is a reduction of approximately 16%. Strict credit discipline and efficient cash management coupled with lower borrowing cost is leading to reduction in interest cost even at higher level of working capital to support higher level of operations. The leverage ratios of the company remain within comfortable zone.

We have been continuously focusing on deleveraging, as committed and we have reduced long-term loans by Rs.175 crores till September 2021 and shall continue to focus on the deleveraging. The total long-term loans are expected to be reduced by 40% by FY'24. We have already circulated the earnings presentation to the stock exchange which is available on our website as well and with this update, I would now open the forum for question-and-answer. Thank you so much.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, what is the India capacity and utilization during the last quarter, standalone and Cavendish both?

Anshuman Singhania: It was around 85% in Q2 FY'22.

Ashutosh Tiwari: We were around 95%, 96% in Q4 I remember. So this drop is mainly because of which segments were facing some softening in this quarter?

Anshuman Singhania: Mainly, the drop is because of the OEM segment.

Ashutosh Tiwari: How is the fleet truck tyre demand, replacement demand in the last quarter versus say Q4 if you can give some picture, how is replacement doing both bus and radial?

Anshuman Singhania: In terms of the outlook, in the near-term, we are expecting a robust demand in the replacement market with the boost in the economic activity emerging from strong infrastructure spending from the government with the normal monsoon, rural demand picking up, strong vaccination drive. These are all helping the market conditions and consumer sentiments to pick up. OE demand to remain muted in the PV segment because as you know that due to semiconductor chips shortage and supply chain issues. In the CV segment, the OEM demand has now started going up which was muted in previous quarters. In the export markets, because of the anti-dumping duty for China in US and other markets, there is a continuous tailwind for the Indian industry. Over the next few years, we are optimistic and expect the healthy growth of the industry and additionally, major factor that would drive the demand of the CV market are focus on government spending, infrastructure development and even the national scrappage policy which is going to come from FY'22.

Ashutosh Tiwari: Lastly, we have seen increased working capital in the first half. So how do you see the working capital movement going ahead – will it remain here or further increase, how are you looking at it?

Sanjeev Aggarwal: In fact, Ashutosh ji, as I already mentioned, we have been focusing on deleveraging, but as the business is growing, we need higher working capital to sustain enhanced business operations, so we resort to higher working capital borrowings. Going forward, I am expecting this level of working capital borrowings to be maintained.

A.K. Kinra: Values have also gone-up because of the increases in the raw material prices and the end product prices.

Sanjeev Aggarwal: Absolutely, this is also one of the reasons as Mr. Kinra clarified.

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

Jinesh Gandhi: Can you talk about the volume growth which we saw in this quarter and how it could be between replacement and OEM?

Anshuman Singhania: The volume growth from the corresponding period we have seen a 9% growth in the India operations and consolidated, we have seen a 14% volume growth and in terms of OEM, it has been slightly low because as I explained earlier that the pickup in the CV segment has just started happening from now onwards and we see a robust pick up in the CV segment going forward.

Arun K Bajoria: In the case of PCR, as Anshuman ji mentioned earlier, because of the shortage of the semiconductor chips, there has been some slackening of demand from the OEM side. So we can very well say that there is a very good pickup in demand in the replacement market and also in the export market. So, these are the two growth drivers in addition to also we can attribute some growth to the OEM because it's not like only in the PCR segment there is some slackening because of the semiconductor but other sectors are growing very well.

Jinesh Gandhi: Replacement, you indicated has seen a good growth. Even across segments, primarily PCR and the truck and bus, both are doing well or a particular segment?

Arun K Bajoria: All the segments to be very frank are growing well and as already clarified by Anshuman Ji.

Jinesh Gandhi: Second question pertains to RM cost inflation. So in this quarter, what would be the gross impact of commodity prices which would have reflected in our P&L?

Arun K Bajoria: Actually, I will give you a broad understanding of how the input cost have gone up in the last couple of quarters. This has impacted the margins of course and we have seen that in the last three quarters particularly from the month of December 20, the raw material prices started increasing. So the effect of raw material price increase overall till date has been in the range of about 30%, which has been partially passed on to the customers through a gradual increase every month. Wherever, we see that there is a possibility to pass on and we intend to pass on the unabsorbed part in the coming quarters. So, we are very hopeful that the absorption of the increase in the raw material prices will definitely happen in the coming quarters because of the robust demand scenario at the moment.

Jinesh Gandhi: Against 40% increase in commodity prices, we would have required about 24%, 25% kind of price hike. Is that correct? And against that, what kind of price increases taken since December '20?

Arun K Bajoria: As I said, raw material price impact of about 20% of the selling price because we have been using about 65% of the raw material cost is there. So essentially, I am talking about 30%, so 30% increase in the prices is average kind of a thing, which, I am telling you because this impact is higher in some of the raw material compared to the other raw material. Therefore, the average come to about 30%.

Jinesh Gandhi: On outlook for RM, Mr. Singhania talked about stable cost going forward, but aren't we seeing further inflation coming from crude led derivatives given that crude also has increased in recent past and natural rubber has come down materially enough to offset that. So, do you expect the stability only coming only from FY'23 or even in second half?

Sanjeev Aggarwal: This is anybody's guess and we are not very sure about how the raw material prices or the crude will actually behave in the times to come. there is a very high volatility in the crude oil prices, like last week, there was about $3 to $4 reduction and as per one of the reports, they are talking about the average of about $74 to $75 by the end of the year. Therefore, we cannot say that the raw material prices or the crude oil prices will move only in one direction and that is why we were hopeful that the raw material prices may stabilize in the second half and we may have lesser impact on final product prices.

A.K. Kinra: In case of the general cost increase, since the demand is robust, I think the industry should be able to pass on the cost increases to the product.

Jinesh Gandhi: With respect to our capacity utilization, segment wise if you can share along with the CAPEX plan

Anshuman Singhania: No future major CAPEX plan of any of the entities except maintenance CAPEX of approximately Rs.100 crores and earlier around we have taken an initiative to do debottleneck which is a CAPEX, which is involved of Rs.200 crores to unleash our PCR capacity. With this CAPEX, we shall further strengthen our premium tyres and market presence to meet the domestic and export demand, but we will certainly review our CAPEX plans once the economic activity comes to a little bit of more normalization and settle. In any case we are focusing very much on sweating our asset to maximum extent possible.

Sanjeev Aggarwal: In addition to this, as far as the capacity utilization is concerned, we have already mentioned that there was a capacity utilization at India operations as well as at the consolidated level of about 85% during the quarter.

Jinesh Gandhi: But if you can split between PCR and TBR that will be helpful?

Sanjeev Aggarwal: This is not readily available but we have been actually working on almost about 80-85% of the capacity. We will be fully utilizing the capacities going forward as the demand picks up in the PCR & TBR segment

Arun K Bajoria: I just want to add that the passenger car radial capacity is definitely at a higher level and the truck bus radial capacity utilization is slightly lower mainly because as our M.D. sir said that the commercial vehicles production by the OEMs, which is now picking up.

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

Kaushik Poddar: Your peak operating profit margin is around 16%, 17%. So when do you hope to reach that kind of a margin?

Sanjeev Aggarwal: This is a difficult question to answer because as we have been talking about the raw material price scenario which is sort of unprecedented in nature in the last couple of quarters and we are although quite certain that the RM prices are likely to stabilize as we have discussed just now. But how fast we will be able to achieve that level of margin is really difficult to say at this point in time. Nonetheless, we are making all out efforts to increase efficiencies, number one, number two to pass on the increase in the raw material prices to the customers bit-by-bit, number three, we have also been premiumizing our product segment and product offering. So, hopefully, we should be able to come back to a higher level of margin compared to what it is today.

Anshuman Singhania: I just like to add here is that Sanjeev ji has already mentioned about the unabsorbed prices which we are seeing on a monthly basis how can we pass on those prices going forward. Then the other thing is that we are working very hard for enhancing our efforts to further improve the efficiency in the manufacturing such as better our productivity, lower energy, water consumption, reduction in wastages, all this will result also in the margin improvement plus we have been using greatly the use of digital, AI-based tool in the manufacturing and marketing function. We are focusing very much on premium sales such as our Smart Tyre and we are launching the premium range of tires going forward such as Puncture Proof Tyres and Levitas in the PCR segment. Recently, we have launched Smart Tyre which is doing very well in terms of volume and further our strategy as Sanjeev ji already mentioned regarding the premiumisation in the PCR and truck and bus tyres is getting good traction in the marketplace.

A.K. Kinra: Secondly, this becomes difficult at this time to project whether the earlier margins of 15%, 16% when they will be achieved, because there are many factors to it, but fortunately, as M.D. has said, I think going forward the company expects a better financial performance.

Kaushik Poddar: What about the market share of JK Tyre – has it gone up in last quarter?

Anshuman Singhania: The market share has improved from the corresponding period in all categories.

Sanjeev Aggarwal: Just to add to what M.D. sir said, in the last five, six quarters, our growth has been much better. So we have been increasing our market share across segments and the efforts are being made through premiumisation of the product range and also the innovative products which we have launched Smart Tyre and the Puncture Proof Tyre, High Performance Tyre. So, these are the ones which are very well accepted in the market and helping us to increase our market share.

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

Mitul Shah: Sir, my first question is on your premiumization. Can you give some ballpark number that contribution of premium products to total revenue for India operation or consolidated? And what was this number say two or three years ago, so how it has improved?

Anshuman Singhania: Our PCR tyres in the premiumization is nearly 40% and in the truck and bus tyres, it is 75% of premium tyre from the total tyres.

Mitul Shah: Second question is on Mexico operations. Sir, can you give more detail of this margin territory for this Mexico operations? And want to understand despite such a high commodity cost pressure, margins were highest in the last three quarters. One more request, we used to give one or two slides in presentation on this Mexico with the industry growth and market share situation, utilization, etc., We can start giving this from next result onwards.

Arun K Bajoria: Mexican operations, whatever you have seen up till now, we are expecting not only sustained operations, but we are expecting better than that since as I mentioned, we have already achieved a turnover of Rs.542 crores in Q2 vis-à-vis Rs.278 crores in the corresponding quarter of Q2 which is a 95% growth on year-on-year basis and EBITDA for the quarter has also doubled and is now at Rs.54 crores as against Rs.26 crores. So, the operating margins at Mexico, as you have rightly asked, why they are better, is for a simple reason that we have been able to pass on much more equalization for the raw materials because the raw material price increase is similar in Mexico as it is in India. Going forward, I can only say that we are working very hard, we have increased our volumes output of passenger car radial last year and this year we are further improving and increasing our output on the buyer's tyres and therefore you can expect much better performance going forward. Since as I said that there has been a good volume growth on the back of robust demand from Brazil, from Latin America as well as from US markets which I am just repeating what I have said that we have backed a very prestigious order in the farm tyres as well from Latin America operated by one of the Indian automotive player.

Mitul Shah: Sir, lastly on the margin difference of a Cavendish operation and JK Tyres standalone seems to be slightly increased in this quarter, so can you give some detail on Cavendish side?

Arun K Bajoria: There are couple of reasons for such reductions and some of them are like segment mix. There has been no significant OEM sale and product mix and also this margin is similar to the parent company basically. So, really if I try to analyze because the product made at Cavendish and the capacity utilizations is also exactly similar to the parent company and going forward I can only tell you that we are going to perform better than what you have seen in H1.

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

Ashutosh Tiwari: I also have question on Cavendish margin if I I think the margin in last quarter was around 7% which is a much highly compressed versus last year same quarter we had margin of around 17%. I think compression of only 5.5% YoY, but this Cavendish has seen almost 10% compression in gross margin, so what is the reason behind this large compression in Cavendish?

Arun K. Bajoria: Well as I have just mentioned we have now altered the product mix and we have made it a little richer which was not shown in this Q2 so you will see slightly better in the coming quarters you will see better PBIT margin.

Sanjeev Aggarwal: One more point I think I would like to add to this is that in the case of Cavendish as you would have noticed that there is a small amount of sales to OEM, whereas in case of JK Tyre, we were able to pass on the increase in raw material prices to the OEM customer because there is a indexation based pricing. In case of Cavendish because major sales is in the replacement market the increase could not be passed on to the customers similar to JK Tyre.

Arun K Bajoria: In the replacement market it will take time to pass on the price increase whereas in the case of OEM many of the OEM's prices are led to the raw material that is why it is little easy to pass on the cost increase.

Ashutosh Tiwari: And this is also that in the case of Cavendish TBR tyres challenge we have taken lesser price increase compared to our prime PBR radial from JK?

Arun K Bajoria: Well, it is similar, but maybe MD sir can also give some light on it.

Anshuman Singhania: You see we have dual strategy in product offering and we are offering in all segments different price points. So, in that our strategy is definitely one is the JK premium tyre and one is the challenger tyres. So, because of the mix in the segment the price positioning is such.

Arun K Bajoria: And this is basically done is actually to capture more market share, but in case as we have said in the beginning that we are making the product mix richer and therefore you will see better margins going forward in CIL.

Ashutosh Tiwari: And what price increase we have announced of take in October so far or taking from November or any announcement or any increase so far in October?

Ashutosh Tiwari: In this month have we taken any price increase or announced any increase from November 1st

Arun K Bajoria: As MD said in his opening remarks also that we are inching up depending on the type of situation and as you just heard that out of the total price increase in the raw material the inflation that has taken place we have been able to hardly pass on 50% so that balance has to be done in the coming quarters and that has been done month wise and I can assure that it was slightly done in October and going forward we will do the same.

Ashutosh Tiwari: And because we have heard commentary from other companies that the bias side demand in truck side is a bit weaker is it the sense for us that truck bias demand is more weaker than truck bus radial?

Anshuman Singhania: No here the truck bias demand is anything than weaker because the infrastructure development and as the mining activity is going to be picking up because monsoon season was affected in the preceding quarter. So, as we go along the bias demand is going to be quite robust and even the farm sector is picking up now.

Ashutosh Tiwari: And lastly we had mentioned that in the last quarter almost 59% of the sales was from truck and bus segment, can we share like in this basically how much is the truck bias and how much is truck radian out of this truck bus segment?

Anshuman Singhania: We are nearly around 20% would be in truck buyers and around 45% would be truck radial.

Ashutosh Tiwari: But that is 65% I think the sales is 59% using our company sales roughly what is the annual basis 45% is TBR and 20% is truck buyers on annual basis generally?

Sanjeev Aggarwal: Out of 59%, I think this 41%. This is the quarterly figure.

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

Ajit: I have two questions sir there has been lot of assertion from the management side about deleveraging for the last couple of quarters and I mean the investor community is really hopefully that the management will walk the talk in the coming quarters and years I just wanted to understand about your dividend policy also I mean in light of doing deleveraging how would you plan to balance out the dividend policy of the company with the repayments of debt and all, can you just throw some light on that sir because your dividend payout ratio is still much lower than its peak it used to be in some earlier years, so can you share something on that please?

Sanjeev Aggarwal: At the moment, we have been focusing on deleveraging because this was one of the major concerns of all the investors earlier and the company is also thinking the same way. So, we want to come back to the ideal ratio levels. Once that is done then we will be focusing on expansions. Simultaneously, we are also taking the debottlenecking of our plants because this has been the requirement to sustain / improve our market share in all the segments. So, once that is done than of course we can go for the expansion plans. On the dividend front, we have a policy of upto 30% of the total profit as payouts and this could be considered as lower or higher that is the perception of each individual investor. We believe that the re-deployment of profits in the business will actually lead us to higher profitability in future and that is the strategy which we have been following.

AK Kinra: With regard to deleveraging just want to add one thing that the next three years' time 40% of the term loan will be repaid, it is just that very key numbers as the next three years' time 40% of the current term loan will be repaid and with the expansion program as MD has already clarified. I think the company is on a correct route to deleverage its balance sheet which we have done in the last one year and this process and journey is continuing for the next three years also.

Ajit: Sir my follow up question is on the raw material prices specifically the current prevailing rubber prices. I read somewhere in your press release or presentation that the current prices are somewhere in the range of Rs. 170 to Rs. 173 per unit I think this is the RSS4 grade of rubber that we talk about, so will you just be able to share from the management perspective like what is the comfort zone that the management would like to see the price range is it like in the 130 to 140 range or considering the last three or five year long term average what is the comfort level of the rubber prices?

Arun K Bajoria: I can only share what was actually happening in February, March the price was 140 and now as you rightly said the price is ranging in terms of 180, 181 yes last couple of days three, four, five days it has come down below 180. Now comfort zone will all depend on the kind of economy, the kind of offtake of tyres and we have just you have heard from our MD sir and also our CFO that all the actions that are being taken to increase the profitability are going to really help the company, but I would certainly say that Rs. 180 kg is not at all desirable and it is not sustainable also.

Anshuman Singhania: You see the other factor I would like to add to this thing is that also, there is a lot of uncertainty and complex situation arising from shipping situation worldwide that is also adding to the cost. So, we do not really see any shipping also that in the short term getting itself corrected.

Ajit: So, sir that would mean that the management also acknowledges that I mean given the information we get from all quarters about commodities being in a super cycle plus this supply chain thing is not going to go away overnight, so the management acknowledges that over the next maybe three to four quarters we may be in a little high raw material price zone is that do you I understand correct?

Arun K. Bajoria: Three to four quarters is not something which anybody can say look our imports are quite a bit based on petrol products. So, the petrol prices and as everybody knows we are reading every day that the crude oil exceeded even $80 which was not even 40 some couple of quarters ago, but yes it is not going to go away overnight you have absolutely hit the nail on the head and going forward I think couple of quarters now it could be two quarters, three quarters let us wait and see, but I can only tell you that we will do as best as any other tyre company is doing in the country.

Ajit: If I may just squeeze in a small point you can answer very briefly sir this is about the advent of the EV vehicles they may soon reach a inflection point and we may see much larger numbers, so I just wanted to understand because I read somewhere that EV require light weight tyres compared to the conventional tyre, so is it that the tyre manufacturers are focusing does that require any kind of overall in the tyre production, are we like ready to grab a good market share of EV vehicles going ahead?

Anshuman Singhania: Good question and very pertinent question JK Tyre has already made this significant stride into this EV segment. In fact, the first lot of the EV bus as you may know that was also launched from the JK Tyre wheel. The company is also working very closely with the OEMs such as JVM, Tata Motors, Ashok Leyland, VCV on the EV front and we have also supplied our TPMS sensor fitted to this JVM Vehicles we are using our Trill products which is the TPMS sensor device. Then in addition the company is also offering to various two, three wheelers' companies in the EV segment. Our roadmap for technology roadmap we have already grown up and driving this development of technology to a newer material, tyre design on automotive processes to achieve continuous reduction in rolling resistance of tyres which is a key attribute for EV tyres and working also on developing new product for global OEM in India and we have plans to invest considerable amount for our R&D equipment to strengthen our presence in this EV segment.

Anshuman Singhania: Well actually on this front basically in the front line to cater to the requirements of the EV segment.

Arun K Bajoria: And just the last line sir, EV vehicle tyres will be heavier and not lighter is all that I want to tell you because the battery is going to be much, much more heavier rather than any other vehicle.

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

Karan: I will just have one question sir in your presentation you have said that net debt from a company at the end of first half was around 4,800 crores so I just had one question sir post this deleveraging program that you are planning to reduce a long term debt by 40% where do you see your net debt in FY24 or FY25?

Sanjeev Aggarwal: By the end of FY24 we will be reducing almost like about 40% of the current long-term debt. So, only 60% of the total long term debt would be remaining and the total amount of debt as of now as you would have noticed is about on consolidated basis 4,800 crore approximately and out of that the long-term debt is approximately Rs. 3,300.

Karan: So, out of 3,300 crores we will be reducing around say 1,300 crores?

Sanjeev Aggarwal: 40% we will be reducing by FY24.

AK Kinra: Just want to reemphasize at this point of time see the company is now in existence for the last almost about close to 48 years. We have always and always adhered to the schedule for the repayment of the loans you see with the much better profitability and with a much better improved cash flows I think our focus is on deleveraging the balance sheet and we are very confident that in the next three years' time the balance sheet will be much debt light.

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

Mitul Shah: Sir, I have question on your CAPEX and capacity in terms of clarification right now our utilization is 85% in a quarter where replacement is relatively weaker earlier quarters we reach to 95%, 90% kind of a utilization level. So, as industry is expected to grow roughly a long term average of 8%, 10% so by next year we will reach close to 100%, so I want to understand with this debottlenecking of this capacity of 5,75,000 can go to what level and if you can give some more light in terms of which segment you do debottlenecking ?

Sanjeev Aggarwal: I think we have discussed this also in our last call that our capacities will go up by about 10% approximately through the debottlenecking of plants. and at the moment like we have been operating at about 85%, so going forward even if there is an increase in the capacity utilization which we are hoping for with the improvement in the OEM demand. We will be able to able to reach about 95% plus kind of capacity utilization. So, we are not seeing any possibility of losing of any opportunity. Once as I said earlier also once this debottlenecking is completed and our deleveraging has happened then we will quickly take up the expansion plans.

Mitul Shah: Can we expect this plan sir in FY24?

Sanjeev Aggarwal: I am not announcing, I am not giving you any dates, but we will see as we go along and this will also depend upon how the market is shaping up.

Mitul Shah: And this 10% extra capacity would be more or less similar across the segments or any particular segments is more?

Sanjeev Aggarwal PCR could be more.

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 Sanjeev ji you mentioned that the debt levels have gone up because of the operations of the company and revenues have gone up, so proportionally looking ahead since you are saying that revenue should go up further, so should we expect that the working capital debt will further go up once the OEMs pick up?

Sanjeev Aggarwal: Bharat ji we just answered this in this call itself that we have been managing and trying to keep this under control and there is a strict control on the overall current assets and the credit period. I do not think that this will go up further, although there could be an increase in the business but we will be managing it efficiently.

Bharat Bhagnani: As investors we were hoping that the last quarter that was the peak debt of around 4,450 crores of 4,500 crores so it would be little surprising to see that we had increased our debt?

Sanjeev Aggarwal: See again I am saying that even if there is some increase in the working capital because of the increased business operations, which is always good. So, increase in debt is because of higher working capital due to slightly higher level of inventory and the more number of SKUs are there and receivables have gone up because of higher exports to the extent of about 35%. Second as Mr**.** Bajoria, mentioned earlier that the prices for the raw material have gone up by about let us say 30% last two, three quarters and also in fact we have built up some level of the raw material inventory because in the rising scenario for the raw material we have to build up a strategic inventory. So, these are some of the factors which have also caused this increase otherwise the efficiency in managing the working capital is very much there and which is being further improved.

AK Kinra: I want to add just what Sanjeev has just said see the working capital per se has gone up because of the increase in the volumes, but in terms of working capital cycle in terms of number of days it has come down. You see most important is the working capital cycle and the values lot depends on the volumes, values of the raw material, values of the end product these have all gone up even if we do not do anything even then this is generally sees of about 10%, 15% because of the evaluation factors, but I think key factor is the number of days of the working capital cycle fortunately as Sanjeev has mentioned debt has come down.

Bharat Bhagnani: So this should be the level at which we can operate we can expect to end the year as well?

Sanjeev Aggarwal: Surely.

Bharat Bhagnani: Sir second question was that in the current calendar year starting from January 21 what is the kind of price hike that we have already taken?

Arun K Bajoria: Sir we had just mentioned that out of the total increase we have already taken about 50% in the last two, three quarters and going forward we are inching up only and only to offset the actual increase that has happened on the margins that is all. So, do not think we will definitely continue to take the price hike which is necessary and only that will be passed on so that we can maintain our working results and improve our margins.

Bharat Bhagnani: Barring any unforeseen circumstances on the raw material let us say assuming that it stays at the same level at which it is right now, how much time will it take to pass on the rest of the 50% any indication there would it take one quarter, two quarters or three quarters from now?

Arun K Bajoria: We had earlier said in the call that it takes some time to absorb the price increases in the replacement market, which is the aftermarket, but the OEM is linked to indexation. So, that is a lag effect of two to three months, but that surely comes. The other thing is that we have been able to take good price increases in the export market. So, the overall I think I have been able to answer you on that.

Arun K Bajoria: In fact I would add one more point to this that in the international market the pass on is very fast, quick compared to the Indian market, but we are hopeful and we have heavy intent to pass on the increase fully.

Bharat Bhagnani: So, just a final question that you know we have been adding quite a few dealers over the last one year or so, so at what number do we expect to close the financial year today and where are we today on that number basically with shops and dealers?

Sanjeev Aggarwal it will close be about 6,000 levels that is that we are targeting at by the end of this financial year.

Bharat Bhagnani: And where are we currently on that?

Sanjeev Aggarwal: This is almost at about 5,700 approximately.

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

Sanjeev Aggarwal: Thank you very much for join us today on this call and we hope that we have been able to reply to your questions to your satisfaction. I and own my behalf and on behalf of the company's management wish you a very Happy and Prosperous Diwali and wish you season's greetings.

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