"JK Tyre & Industries Limited Q1 FY'25 Earnings Conference Call"

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MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY'25 Results Conference Call of JK Tyre, hosted by ICICI Securities. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks, Shlok. Thanks to the management of JK Tyre for giving us the opportunity to host the call. We have with us the senior management represented by Mr. Anshuman Singhania, Managing Director; Mr. Arun K. Bajoria, Director and President - International business; Mr. Anuj Kathuria, President - India; Mr. Sanjeev Aggarwal, Chief Financial Officer; and Mr. A.K. Kinra, Financial Advisor.

So without wasting any time, I'd like to hand over the call to Mr. Anshuman Singhania for his initial comments. Over to you, sir.

Anshuman Singhania: Yes. Thank you. A very good afternoon everyone. I welcome you all for joining JK Tyre's Q1FY25 earnings call. I am Anshuman Singhania, Managing Director and I have with me Mr. Arun Bajoria, Director & President – International, Mr. Anuj Kathuria, President – India, Mr. A.K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of the Company.

Let me start by sharing the highlights of quarter 1 of financial year 2025. We recorded another quarter of profitable growth led by significant expansion in operating margins on year-on-year basis. Overall net profit surged to INR212 crore, a growth of 33% on y-o-y basis. Our strategic thrust on premiumization, brand salience and pricing has enabled us to manage the raw material cost pressures. On revenue front, overall revenues were flattish over the corresponding quarter, primarily due to lower OEM sales, partially offset by higher export sales; while replacement segment sales remained flat.

Net debt at the quarter-end stood at INR3,832 crore. Free cash flows and return ratios remained healthy with improved leverage ratios. We are committed to continuously deleverage the balance sheet with better cash accruals and higher profitability.

Automotive sales, in volume terms, in India continues to post decent growth in Q1. Commercial vehicle and passenger vehicle segment posted low single digit growth. M&HCV demand impacted due to slowdown in infrastructure projects on account of general elections. Passenger vehicle sales also moderated during the quarter due to high base effect, however, order bookings remained strong in the overall SUV category. The two-wheeler segment witnessed recovery, largely due to improved demand sentiments in rural areas.

We are optimistic about the tyre industry supported by reforms and a focus on infrastructure development. Moreover, upcoming festive season and favourable monsoon conditions augur well for the industry.

We are proud to share that JK Tyre was awarded the 'Great Place to Work' in auto & auto components segment. This signifies our commitment in creating & sustaining a high-trust and high-performance culture.

During the quarter, we further expanded our market reach in the replacement segment by adding 44 brand shops, 40+ fleet customers and 2 large accounts in mobility business.

With the continuous evolution of the EV sector in India, the development of EV-oriented technology remains a key focus for the company. Today, there are over 8,100 EV buses registered in India and JK Tyre is the market leaders with major fitment share.

We are partnering with leading players in the electric mobility sector, offering our comprehensive Mobility Solutions. Moreover, JK Tyre's Mobility Solutions Business achieved ISO 9001:2015 certification from DNV which is 1st of such type quality certification received by any company in Tyre Service industry.

In our continued efforts to offer superior value preposition to our customers, we have introduced the Next-Generation Tyres for Commercial Vehicles to cater to the evolving needs of the transportation sector and the revolutionary JETWAY JUXe for electric buses.

The recently expanded capacity for TBR and PCR has enabled us to achieve higher levels of premiumization.

The ongoing capacity expansion programs in TBR, PCR and All Steel Light Truck Radial tyres for an aggregate cost of INR1,400 crore are progressing well.

Our brand-building efforts have been pivotal in enhancing the Company's visibility and engagement strategy. We created innovative digital campaigns that resonated with our target audiences, using compelling media content to boost visibility across key demographics. Our recent campaign 'Hindustan Mile Hindustan Se - 'Desh Ka Tyre' ensuring effective impact on all media platforms.

Our focus on ESG and digitalization is driving us ahead towards excellence in this era of sustainable development. We remain committed to strengthen our processes to offer better experience to the customers.

At JK Tyre, we are committed to further reinforce our thrust for premiumization, digitalization, R&D, innovation, sustainability, customer-centricity, and technology-driven manufacturing.

We have welcomed the move of the government, which has recently notified the continuation of the CVD on import of TBR tyres from China. This is a very good move and will go a long way in promoting the domestic manufacturing and sales of TBR.

Now I would respect Mr. Bajoria to talk about the performance of JK Tornel Mexico.

Arun K. Bajoria: Thank you, MD sir. JK Tornel Mexico registered the quarterly sales of MXN1,234 million, equivalent to nearly INR600 crores, lower by about 13% on a year-on-year basis. EBITDA margins sustained at 8.7%, that is MXN108 million equivalent to INR52 crores. JK Tornel Mexico's financial performance for the quarter was slightly subdued due to general elections in Mexico, lower number of working days on account of the Easter holidays in the first week of April and the peso appreciation impacting exports.

Overall economic situation in Mexico is expected to stabilize in the current calendar year and continues to be buoyant from the perspective of foreign direct investments and government expenditure plans. During the quarter, we have taken strategic price increase across categories in the major markets to offset the impact of rising raw material prices.

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

Sanjeev Aggarwal: Thank you very much, sir. So, let me briefly share the key highlights for quarter 1 of FY'25. The consolidated revenues for the quarter were recorded at INR3,655 crore. EBITDA margins during Q1FY'25 were recorded at 14.1%, vis-à-vis 12.5% in the corresponding quarter, which is an expansion of 162 basis points. Profitability at EBITDA level were recorded at INR516 crores as against INR465 crores in Q1 last year, which is a growth of 11% on a Y-o-Y basis.

Cash profit for the quarter stood at INR403 crores as compared to INR343 crores in Q1 last year, which is higher by 18%. Interest cost stood at INR112 crores, which is lower by 8% over the corresponding quarter. Profit after tax stood at INR212 crores, up by 33% on a y-o-y basis. Consolidated capacity utilization for the quarter was over 80%.

Consolidated exports stood at INR637 crores, which is up by 9% on a y-o-y basis.

Subsidiary companies, Cavendish Industries and JK Tornel Mexico continued to perform well and contributed significantly to the revenues and profitability on a consolidated basis.

Cavendish posted a top line of INR975 crores with an EBITDA of INR139 crores, registering an operating margin of 14.3%.

Earnings per share on consolidated basis improved to INR7.62 per share in Q1 as against INR5.93 per share last year.

Return ratios have significantly improved further. ROCE post-tax is at 15.4% and ROE is at 20%.

Net debt stood at INR3,832 crores as of June '24, higher by 3% over March numbers due to increase in working capital borrowing. Leverage ratios sustained over March '24 levels. Net debt to Equity and Net debt to EBITDA remained at 0.80x and 1.76x respectively.

So the balance sheet of the company is much healthier and improved -- with improved financial ratios. We have already circulated earnings presentation, which is available on our website as well as on Stock Exchange website.

Now we open the forum for Q&A. Thank you.

Moderator: The first question is from the line of Mumuksh Mandlesha from Anand Rathi.

Mumuksh Mandlesha: Congratulations on the good margin performance. Sir, firstly, on the volume growth, sir, this quarter seems to be muted, sir. Can you explain what led to the volume to be low? And also, can you provide us some numbers around the growth side? How has been overall volume growth and across the various segments, OE and aftermarket and exports?

Anshuman Singhania: In CV segment, where we have the highest share was impacted on account of lower of M&HCV production owing to slowdown in the infrastructure projects on account of the general elections.

Also, there has been a temporary change in the overall CV segment mix, which has led to the lower OEM offtake during the quarter. So, these were some of the reasons for lower volume growth. However, we are envisioning that in the second half of the year, the demand will pick up. In fact, in terms of our domestic volume, we remained flat in the replacement market. But in the export market, we had a significant jump of 19% over the corresponding quarter.

Mumuksh Mandlesha: And sir, OEM would be, sir, how much fall, sir?

Anshuman Singhania: OEM degrowth was in the tune of about 5% to 6%.

Mumuksh Mandlesha: Got it, sir and sir, just on the gross margin side, last time you mentioned about 4% increase in the RM basket cost. Can you just reiterate what was the impact this quarter? And also for Q2, how much further RM cost increase will be expected, sir?

Anshuman Singhania: So the average RM prices quarter-on-quarter basis, we have seen an impact of 3% to 4%. We are expecting the average raw material basket to increase in the range of about 5% to 6% in quarter 2.

Mumuksh Mandlesha: Okay and sir, on the price hike we have taken in July, sir, how much do you expect that price hike to cover the increase in the Q2 cost, sir?

Anshuman Singhania: In quarter 1, our net sales realization has improved by 2% on a quarter-on-quarter basis which is led mainly by the price increase and better product mix.

Mumuksh Mandlesha: Got it. And just on the price hike, sir, what's the plan to take further price hike to negate the impact, sir? And just on the rubber inflation, sir, what's your view on continuing increase in the natural India rubber prices, also the international prices also had inched up recently. So how do you see the stabilization there, sir?

Anshuman Singhania: So, we have taken a price increase in the range of about 1% to 1.5% and further we would like to assess the situation. Based on that, we will be able to take the price in the subsequent months for the quarter 2.

Mumuksh Mandlesha: On the natural rubber price increasing happening in the Indian rubber prices and also the recently international prices have inched up. So how do you see that stabilization, sir?

Anshuman Singhania: There have been lot of supply chain disruptions in terms of vessel availability etc. So, there has been a little bit of delay in terms of incoming of raw material. So, which has impacted RM prices. Also, monsoon season which is a lean season in terms of rubber production has also led to increased rubber prices. But we see that in the coming quarter, this shall stabilize.

Mumuksh Mandlesha: Got it, sir. And sir, lastly, sir, on the -- what's your take on the competitor not taking price hike in the TBR segment and another peer announcing discounts in that segment. So what would be our approach to this situation? Also on the pricing front, how is the price difference on the TBR and PCR with the players like MRF and Apollo?

Anshuman Singhania: Anujji, would you like to take this please?

Anuj Kathuria: As you heard Anshumanji saying earlier that we have focused on our margin expansion. We're also working on product premiumization. So, therefore, we saw that in quarter 1 that we were able to sustain our margins. Going forward, we wish to do that.

The other thing is that I also strongly believe that from September onwards, the demand in the M&HCV and the CV overall will be quite robust. There will be demand coming up, and we are the market leader as far as the TBR is concerned. So we will be able to secure a decent top line growth as well.

We are also working on a lot of our premiumization also in the TBR, wherein our power SKUs like the energy saver tyres and extra mileage tyres are doing well. So, based on that, we would like to have our own way forward and strategy, wherein we would definitely like to increase the top line, but at the same time would not like to compromise on our margin.

Mumuksh Mandlesha: So is it fair to say, sir, our prices remain stable, and we would keep on increasing the price hike to further compensate the RM cost inflation?

Anuj Kathuria: See, we'll have to watch the RM basket very carefully. As you know that it has been on upward trend, mainly led by the natural rubber. But once we see that the global supply chain challenges are resolved, availability improves and also our domestic production of natural rubber post the monsoon season should improve.

We will be watching this very carefully and depending on how the raw material basket pans out, we will take further calls and also, we are watching the market to see the ability of the market to absorb the increases that we are announcing.

Moderator: The next question is from the line of Nirav Seksaria from Living Root Analytics, LLP.

Nirav Seksaria: Congratulations for a good set of numbers. Sir, could you quantify the EPR cost for this quarter?

Sanjeev Aggarwal: In fact, as we discussed last time also that we have started passing on the EPR cost and have started charging as a direct line item from the month of May onwards. There is still some cost of about INR25 crores which has been charged to the P&L. Going forward, this will also be passing through this as well.

Nirav Seksaria: Okay. And sir, we are also expecting a 5% to 6% increase in raw material basket in Q2. So would we need an additional price hike to recover that pricing? And if yes, then what is the quantum of that?

Anshuman Singhania: As, I explained earlier that in the month of July, we have already taken a price hike, and we will be subsequently assessing the situation and seeing the raw material scenario and based on that, we will take the price increase in the remaining 2 months of the second quarter. Secondly, our enriching product mix should also offset the impact.

Nirav Seksaria: Sir, could you quantify the price hike taken in July?

Anuj Kathuria: 1% to 1.5%, varies category to category.

Nirav Seksaria: Okay. And so sir, did we stock up on to the raw material in this quarter in Q1?

Anuj Kathuria: Yes, we have actually started building a little bit from quarter 4 last year itself.

Nirav Seksaria: Okay. Hence, we can see that in Q1, the impact of raw material is relatively smaller?

Anuj Kathuria: Yes.

Nirav Seksaria: Is the same being done for Q2?

Anuj Kathuria: To a certain extent, yes again depends on different commodities in the raw material basket as well as the stocking levels. But overall, it is there.

Nirav Seksaria: Sir, is it fair to assume that we are doing it for natural rubber in a hiking scenario?

Anshuman Singhania: We are working with our major suppliers and we are strategically keeping our inventory levels so that we may not have any impact on the production. The teams are working very closely with our suppliers to ensure that there is no impact. We don't see any impact of availability in the coming quarters.

Nirav Seksaria: Okay, sure. And sir, could you give the split of capacity utilization in PCR and TBR?

Anuj Kathuria: Overall capacity utilization for radials is 90% plus and overall is 80% plus.

Moderator: The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited.

Jyoti Singh: Sir, if you can explain on the premiumization side that has increased, so that led to increase in the content for vehicle side. If you can shed some light on that? And second, on the CV segment side, how much market share we have?

Anshuman Singhania: We have been able to continue our premiumization thrust. On the passenger car radial side 15 inch and above mix has gone up to almost around 50%. So there has been a significant shift in PCR and as Anujji said that in the truck radial also, we've been able to sell our more premium sizes and the mix is almost around 92%.

Jyoti Singh: Okay. And sir, CV segment market share, how much we have?

Anuj Kathuria: CV segment overall is very difficult to say, but we are leaders in the TBR domestic market in both OE and replacement put together. We are also leaders in the light truck radial segment and overall, everything put together, even in the CV segment, we are having the leadership position. So this is what we can share with you right now.

Jyoti Singh: And sir, just last question. On the replacement side, we are almost more than 62%. So, what our view on OE demand in future because there will be lot of demand on the replacement side?

Anuj Kathuria: So, replacement versus OE, it keeps on changing a little bit. But generally, OE demand is stronger in the second half of the financial year. So, in the quarter 3 and quarter 4, we expect that the demand from OE would be coming back to a better level.

Anshuman Singhania: Just to add, we are very optimistic on the outlook for the tyre demand driven by the policy reforms, including the continued focus of the govt. on infrastructure development and more so the monsoons. The government is already, as you know is trying to mobilize the infrastructure sector.

Moreover, the festive season and good monsoon condition augers well for the industry. So overall, the demand is looking very good.

Jyoti Singh: Yes. And sir, just one more last question. On the 2-wheeler side, like we still on the consol basis, we are contributing 4% and 2-wheeler side demand is picking up. So are we targeting to increase further on the revenue mix side, we will be stable in this range?

Anshuman Singhania: You're right, that the 2-3-wheeler segment has picked-up and we are also part of this story. But our capacity is very small compared to the Industry. Presently, we are selling full given the capacity and utilisation as well.

Anuj Kathuria: Just to add, even in the 2-3-wheeler segment, we are focusing on certain premium products. We are having the limited capacity, we would like to have more premium products. In this direction, we have launched recently the new range of tyres in this segment.

Moderator: The next question is from the line of Mitul Shah from DAM Capital.

Mitul Shah: Sir, my first question is on Mexico operation for this Tornel. You highlighted that a double-digit decline is because of the various reasons, one of them is election and then holidays and all. But going forward, what is a steady state, whether this can be considered as a onetime effect in this quarter and situation will be much better or still there is an expected slowdown for next 1 or 2 quarters? That is the first part of the question.

Arun K. Bajoria: You rightly said, going forward, things are going to be better and the new government is also going to be in effect in the H2 beginning. Therefore, we hope to significantly improve our business as compared to H1.

Mitul Shah: Sir, on the same line, second question is, as we are entirely into the aftermarket in the Tornel operations and quite a sizable portion is also exported from, so how you see the situation? Or can you explain in a bit detail on the domestic market situation as well as those export geographies also for Tornel?

Arun K. Bajoria: In the domestic market, I would like to inform you that in the bias segment, our market share is nearly 100% because there is no other tyre manufacturer in Mexico, who is manufacturing bias tyres. So, we are in a very commanding position, including supplies of to the military segment in Mexico.

On passenger car radials side, we are commanding the highest market share in the Mexico market despite the presence of leading brands of the world.

So, we are in a very strong position being the only Mexican manufacturer of tyres in Mexico. Therefore, going forward, we should now come back to our better earning capacity, better sales and overall performance.

Mitul Shah: And export from Tornel?

Arun K. Bajoria: Exports from Tornel have jumped from 40% in financial year '21 to nearly 50% in financial year '24 due to enhanced focus on North America and the Latin American markets. However, I must mention to you our exports did take a little bit of a beating because the dollar-peso rates appreciation. MXN has come down to almost 17.5 viz-a-viz dollar, which was for a temporary period. Again, now in the Q2, we are seeing that the peso has gone back to MXN18.5 and should stabilize around that level. Therefore, the exports out of Mexico are again now reasonably profitable.

Mitul Shah: So sir, this currency thing is also impacting margins or no major impact of that?

Arun K. Bajoria: No, certainly, the margins will be slightly better when you have more pesos earning from the exports.

Mitul Shah: Okay. And sir, second question on the domestic market side for replacement, particularly. As you highlighted earlier that there was a slowdown on the commercial vehicle side, particularly OEM. How has been the situation on the replacement side? And again, Q2, Q3; Q2 may be weak because of the monsoon going on for OEM side, but how you would see the replacement side for next 2, 3 quarters for M&HCVs?

Anuj Kathuria: In M&HCV, replacement demand in Q1 was quite okay. Generally, Q1 is okay. Q2 is a slow quarter because of the monsoon. But we expect that once the monsoon is over and the rate movement will pick up. In fact, we monitor the BTKM very closely in terms of rate availability and sales movement. BTKM is showing a positive growth, and we expect that BTKM should be growing very close to the GDP growth rate of 6.5% to 7% which augurs well for the M&HCV segment. So we should be able to see that replacement demand for M&HCV in quarter 3 and quarter 4 should be in that range of high single digits.

Mitul Shah: Sir, and lastly, on the balance sheet side, how is the debt position at the end of quarter? And any change in the capex for this year and next year? That's all, sir.

Sanjeev Aggarwal: On the debt side, there is some increase in working capital loan during the quarter, which led to some increase in gross debt. Net debt stood at INR3,832 crores as against INR3,704 crores in the last quarter.

Going forward, we are expecting increase in sales from this quarter onwards and we should be able to manage working capital better, which will definitely reduce the overall debt.

Mitul Shah: On capex, sir?

Anshuman Singhania: PCR and TBR project of INR800 crores has been completed and the ongoing expansion is about INR1,400 crores project, which is in the TBR, Passenger car radial and All steel light truck radial category.

Moderator: The next question is from the line of Jaimin Desai from Emkay Global.

Jaimin Desai: Congratulations on strong margin performance in the quarter. My first question was related to the outlook for the year. Last quarter, you had indicated about 8% to 10% consolidated revenue growth expected for this year. Does that still hold?

Anuj Kathuria: If you see, the quarter 1 has been a little more sluggish in terms of the commercial vehicle demand. In quarter 2, we are hoping that the smart recovery would happen. But I think, we should be hopeful for somewhere growth between the middle to high single digit.

Jaimin Desai: Okay. Mid- to high single digit, okay. And sir, on the PCR side, in last quarter, we were expecting about high single-digit growth for PCR replacement. Do we hold on to that guidance as well?

Anuj Kathuria: PCR replacement should be doing well because overall replacement cycle is getting shortened. So in the replacement market, the demand should be good. Also, we saw that a couple of years that the SUVs were becoming the larger population of the overall sales. Going forward, things should improve further.

Jaimin Desai: Understood. And sir, this quarter, you've seen a good improvement in margin performance of both the subsidiaries, Cavendish and Tornel on Q-o-Q basis. Could you highlight some of the reasons for the same, particularly in Tornel because there we also had lower scale sequentially if margins have improved?

Arun K. Bajoria: Well, if you see, we have an element of outsourced tyres also in Tornel. So, if you take profitability of own manufactured products our margins are higher to the extent of about 10-11% in the quarter. But going forward, those margins are expected to improve because we have taken a price increase effective from 1st of June 2024, and that is getting stabilised. Therefore, our margins are expected to be better in the second half as well as in the second quarter.

Anshuman Singhania: Just adding to Mr. Bajoriaji's answer, I would like to highlight that in both the subsidiaries from the corresponding quarter and from the sequential, our EBIDTA has increased.

Moderator: So we are awaiting for the participants to enter into the question queue. The next question is from the line of Shruti Mulchandani from Unifi Capital.

Shruti Mulchandani: Sir, basically, I wanted to know what is the contribution of fleet management and mobility services to the consolidated revenue?

Anuj Kathuria: So, if you look at the mobility and the fleet business, this business is growing very well at a good growth rate. However, as of now, it contributes to around 3% to 4% of the overall top line. But it's a business that is growing at a much faster rate as compared to the other part of the business.

Shruti Mulchandani: Okay. So if you could help me with the business model for the fleet management, do you like to charge the fleet operator on a per tyre basis? Or how is it like if you could help me with that?

Anuj Kathuria: So, as I explained, there are two parts to it. One is called the fleet management, where the fleet owner still continues to buy the tyre upfront, but we also provide the comprehensive service. It's a one-stop service solution. We have got 350-plus touch points where you can avail of the services and these services are available on cashless basis. They enter into an arrangement with us, wherein we this services on Pan-India basis. This is fleet management.

On the other side, on the mobility solutions, that is where we sell the miles. This is on a pay-per-use basis, where the customer gets the tyres fitted on the vehicles and he has to just pay based on the number of kilometers that the vehicle is driven, and we monitor these vehicles very closely.

We have found acceptance with almost close to 50 marquee accounts as of now, managing close to a good number of the population of vehicles that are under mobility business.

Shruti Mulchandani: Okay. I understood. That was really helpful. Also, is this segment margin accretive or something like that, sir?

Sanjeev Aggarwal: It is margin accretive.

Shruti Mulchandani: So, the revenue coming from the sales of LCV tyres. So is it a part when you're reporting the revenue, is it a part of the TBR segment or the other segments?

Sanjeev Aggarwal: No, it is part of the others. It's not part of the TBR.

Moderator: The next question is from the line of Aditya Akhani from Omkara Capital Private Limited.

Aditya Akhani: Sir, my question would be what is the revenue mix by market and product line for Indian operations for Q1?

Anuj Kathuria: **By** Market-wise, the replacement market is close to 60%. OEM is about 25%, and the remaining is exports around 15%.

Aditya Akhani: Okay. And by product line?

Anuj Kathuria: By Product line, total truck & bus is around 60%, passenger line radial is another 25% and others is around 15% including 2-3 wheelers.

Moderator: There are no further questions, so we request the management for closing remarks.

Sanjeev Aggarwal: Thank you very much to all of you for joining the call. Hope we have been able to clarify all your questions. Thank you so much. Thank you.

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