"JK Tyre & Industries Limited Q2 FY-23 Earnings Conference Call"

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MODERATOR: **MR. BASUDEB BANERJEE – VICE PRESIDENT, ICICI SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to JK Tyre & Industries Limited Q2 FY23 Earnings Conference Call 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 "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Basudeb Banerjee, Vice President at ICICI Securities Limited. Thank you and over to you sir.

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

Over to you Mr. Bajoria for your initial comments and posts that will take the Q&A. Thanks.

Sanjeev Aggarwal: The opening remarks will be given by Mr. Anshuman Singhania, Managing Director of the company and then Mr. Bajoria will speak about the performance of foreign subsidiary. So, over to you Anshuman ji.

Anshuman Singhania: Good afternoon everyone and a very warm welcome to JK Tyre's Q2FY23 Earnings Call and thank you all for joining us today. I am Anshuman Singhania, Managing Director and I have with me Mr. Arun K. Bajoria, Director & President – International, Mr. Anuj Kathuria, President – India, Mr. A.K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of the Company.

At the outset, I would like to thank all our customers, dealers, bankers and stakeholders for reposing trust and partnering in JK Tyre's growth journey. We are proud to share that our products are innovative, efficient and sustainable in the era of the de-carbonization and digitalization. In the times of uncertainty, we have robust products, business systems and processes well suited for VUCA world.

During Quarter 2, the company has registered an impressive top-line growth of 26% at Rs.3,764 crore, which is the highest ever sales for a quarter. Our strong presence in the OEM and replacement markets enables us to leverage on the buoyancy in the tyre sector, on the strength of our innovative, high performance, diversified products portfolio and high brand visibility. Our ever-growing association and strong collaboration with OEMs are continuously resulting in new vehicle launches rolling out on JK Tyres.

We continue to achieve robust volume growth in the domestic market across major products, i.e., commercial and passenger tyre segments. During the quarter, OEM offtake improved sharply post-easing in the semi-conductor supplies, festive season and good traction in economic activities. Furthermore, exports have made a significant contribution to our revenue growth despite geo-political and economic slowdown challenges. We are confident that the strength of our brand, products and distribution network will enable us to sustain the growth in all market segments".

In Q2, the automotive industry continued its robust performance. CV segment continue to gather momentum on the back of replacement demand led by higher fleet utilisation, govt. infrastructural push. CV growth is expected to trend further up in near to medium term.

In the passenger vehicle space, strong preference towards personal mobility, inclination towards SUV segment and ongoing festive season is driving the growth in PV category. The order book remained healthy for all major PV OEMs. All these development in the automobile industry will drive robust demand both in replacement and OEM market for tyre industry in India.

To capitalize on growth opportunities, we are unleashing our capacities wherever possible. The already announced capacity expansion capex in PCR and TBR tyres are under implementation stage and progressing well.

To strengthen our product portfolio, we have recently added two new range of tyres for commercial vehicles, i.e., Jetsteel JDH XM and Jetway JUC XM in order to ensure long-term benefits to our customers.

In our EV journey, we have recently unveiled the complete range of EV tyres. These tyres namely, JETWAY JUX^{E} are designed to meet the stringent performance needs of EV trucks, buses and LCVs; and RANGER HP^{E} for passenger cars and SUVs.

Raw material and other input costs have started softening after a long spell of unprecedented increase, which is likely to improve margins in the medium term.

We are extremely proud to share that JK Tyre has been assigned “best in class” rating by CareEdge on ESG parameters. The high rating is primarily driven by leadership performance on environment, social and governance pillars. This recognition is a testimony of our unwavering commitments and responsibility towards conserving environment and serving society needs. It is highly satisfying that we keep sustainability at the heart of our growth journey. We are committed to the goal of being a Green and Clean Company with sustainable use of green energy and reduction on fossil fuel dependence”.

We stand committed towards the betterment of our people and the larger community. We will continue to provide support through our well-structured CSR programs. We follow global best practices and uphold the highest standards of corporate governance and compliance.

We are proud and honored to be featured among the ICONIC BRANDS of India 2022, a recognition received for the 4th time in a row from “The Economic Times Iconic Brands of India”.

Further, our manufacturing units have continuously been receiving many accolades, to name a few;

1. Chennai Tyre Plant - Received CII National Energy Leader Award 2022 for the 5th Consecutive Time.
2. Vikrant Tyre Plant won Energy Efficient Unit award from CII.
3. Kankroli Tyre Plant was awarded CII National Award for Excellence in Water Management 2022.

Now, I request Mr. Arun Bajoria to talk about the performance of JK Tornel, Mexico.

Arun Kumar Bajoria: Thank you Anshuman ji. JK Tornel, Mexico continued to perform well in terms of overall revenue and profitability. During the quarter, JK Tornel achieved highest ever turnover of Mexican pesos 1,830 Mn. (equivalent to Rs.721 crore) as compared to Mexican pesos 1,466 Mn. (equivalent to Rs.542 crore), an increase of 25% in constant currency. Operating profit of Mexican pesos 164 Mn.

(equivalent to Rs.65 crore) is an increase of 13% in peso terms on y-o-y basis. There has been significant improvement on all operational parameters with plants running at more than 90% capacity utilisation and volumes increasing quarter on quarter.

JK Tornel continues to remain the largest tyre supplier to all the mass merchandisers in Mexico viz; Walmart, Soriana, Chedraui, Elektra, Coppel, CASA ley, Suburbia and Comercial Mexica. JK Tornel continues to command highest PCR market share in the replacement market and holds the leadership position for online sales in Mexico.

We are happy to share that "JK Tornel has secured 4 Star Rating for British Council Sword of Honor". Since the acquisition of JK Tornel, there has been a significant growth in business operations and has resulted in yielding multifold value creation for its parent company. Thus, it has been a successful strategic investment for JK Tyre.

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

Sanjeev Aggarwal: Thank you, sir. Let me briefly highlight the financial performance in Q2FY23. The consolidated sales were recorded at Rs.3,764 crore, which is the highest ever quarterly turnover recorded in the history of the company. The corresponding number was Rs.2,998 crore in Q2FY22, registering an increase of 26% on y-o-y basis. The average capacity utilisation was 85% with radial capacity at even higher utilisation during the quarter. Overall volumes witnessed double-digit growth over the corresponding quarter. Export revenues from India were recorded at Rs.514 crore in Q2FY23 viz-a-viz Rs.454 crore in the corresponding quarter, which is up by 13%.

Profitability at EBDITA level in Q2FY23 was recorded at Rs.305 crore as against Rs.303 crore in Q2FY22. Operating profit margins were recorded at 8.1%, which is slightly better as compared to previous quarter. Cash profit for the quarter stood at Rs.196 crore and Profit before tax (PBT) stood at Rs.74 crore.

The balance sheet of the company is healthy and leverage ratios remains within the acceptable levels. We remain committed to deleverage our balance sheet through reduction in long term borrowings going forward.

We have already circulated our earnings presentation, which is available on our website as well as on the stock exchange websites. Now, we open the forum for Q&A.

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

Ashutosh Tiwari: So firstly, on the export side it seems to have grown on quarter-on-quarter so which geographies are doing well for us?

Sanjeev Aggarwal: We have been exporting to more than 105 countries globally including North America, Latin America, Europe, Middle East and other countries. So, North America is providing us a good opportunity for our products and that is the one which is contributing the most in the exports increase.

Ashutosh Tiwari: Okay. Secondly on India side, how is the demand in terms of volumes on a quarter-on-quarter basis across segments like truck and PCR and others?

Anshuman Singhania: On the outlook of the industry, the CV demand looks to be strong and we expect to benefit from the structural upcycle over the near to medium term. In the PV segment, we are seeing that tapering off of the chip shortage is resulting into good auto sales and OEM offtakes. We are hoping that the tractor segment should do well after good monsoon. Overall, we expect automotive industry to register a good growth ahead.

Ashutosh Tiwari: Okay, you mentioned that raw material prices are softening now. So, what kind of decline you expect in the raw material cost in third quarter versus the last quarter?

Anshuman Singhania: Raw material prices are expected to soften from Q3 onwards.

Ashutosh Tiwari: Do you expect a softening or a modest increase in the third quarter?

Anshuman Singhania: No, I said softening from quarter three onwards.

Ashutosh Tiwari: And lastly on the net debt side how it has moved versus March, how is the net debt at the consolidated level now?

Sanjeev Aggarwal: In fact, on the debt side as we have been repaying our schedule debt as we have committed. So, there has been a reduction to the extent of about Rs.250 crore on the long-term debt side, but parallelly, there is an increase in working capital borrowings due to increase in the raw material and finished goods prices and volume growth. On overall debt side we are almost at par with the number which was there in the month of March.

Moderator: Thank you very much. We take the next question from the line of Nirav Seksaria from Living Root Capital. Please go ahead sir.

Nirav Seksaria: Sir, could you mention the price hike taken during the quarter?

Anshuman Singhania: During quarter two the average raw material prices increased by 4%.

Nirav Seksaria: And so what about the price hike we have taken?

Anshuman Singhania: We were able to fully offset the raw material price hike by taking a selling price increase of nearly 3%. But having said that, in the last seven to eight quarters, we have witnessed an unprecedented raw material price increase and the under recovery to the extent of 7% to 8%, which we would try to recover by resorting to further price increase in coming quarters and will take advantage of the operating leverages, efficiency improvement and cost reduction measures and several other measures including product premiumization.

Nirav Seksaria: So, sir if we are mentioning that the price hike taken by us in the quarter is around 3%, if we look at quarter-over-quarter sales of the company, the sales have increased by 3%. So, could we say that it is a negligible growth in terms of volume?

Anshuman Singhania: You are right, there is no volume growth during Q3FY23 viz-a-viz Q2FY23.

Nirav Seksaria: It has remained flattish, so sir is there any specific reason behind the flattish growth because, as you have mentioned over your commentary OEMs are picking up. So, the volume growth should have been there?

Anshuman Singhania: I would request Anuj ji to take this?

Anuj Kathuria: Sure, generally for the tyre industry, quarter two is a slow quarter, if you take the previous quarter, so as compared to quarter one this year if we have been able to maintain the volumes, it is actually a sign of good demand. The demand from OEMs has been very strong, especially in the month of September. In quarter two, the mining and the road construction activity slows down because of the monsoon. So, quarter two is slow but this time quarter two has been equal to quarter one which is a very good sign.

Nirav Seksaria: Okay, to follow that up, are we providing any discounts in the market to push the volumes?

Anuj Kathuria: Not really. In fact, we have been taking price increases. But again, segment-to-segment there may be certain special incentives or schemes, but other than that there are no major discounts as such.

Nirav Seksaria: Okay sir one more question. So what is the reason behind an increase in inventory, whereas OEMs has been picking up?

Anuj Kathuria: Overall inventory may have gone up slightly. There was a specific reason, because couple of OEMs couldn't pick up the stocks because of certain order postponements from the export market. But that is all very useful inventory, which actually has got liquidated in the month of October. So, there's no reason to worry about that.

Nirav Seksaria: Okay sir the last question, so if we compare our other expenses on a year-on-year basis on a half-yearly figure, the other expenses have increased by 22%. What is the reasoning behind this?

Sanjeev Aggarwal: There has been increase in other expenses during H1FY23 viz-a-viz H1FY22 is on account of increased business operations including higher power & fuel, freight and consumption of stores & spares.

Nirav Seksaria: So that's primarily the reason behind increase in other expenses on a half yearly basis.

Moderator: Thank you. We take the next question from the line of Mr. Shubham Agarwal from Aequitas. Please go ahead sir.

Subham Agarwal: My first question is slightly long term. So, I wanted to understand that when the tyre industry will go up the technology curve whether it is related to electric vehicle or the enabling of labeling norms like government going ahead in the future. So, how does this impact the overall capacity of the fixed asset that we have. So, I just wanted to understand a bit more around that.

Arun K Bajoria: The automotive industry is going through a transformation, which is into EV vehicles, and there are a lot of models being introduced in the short term and the long term, there will be lot of models introduced by the manufacturers. At JK Tyre, we have already launched our EV products in various categories in the truck, passenger and commercial categories. So, we have that technology and innovation with us to develop such products and expand our business horizon in EV space.

Subham Agarwal: Yes, so I understood that point. But the thing that I want to understand a bit more is our current fixed assets is capable of producing a certain kind of tyres. And as we go ahead in the technology curve in terms of EV, the new launches that we're doing, how does it impact our assets or how does it reduces the productivity from current level?

Anshuman Singhania: The existing assets are capable of producing EV tyres and we do not see any kind of shortage in terms of tonnage or numbers.

Arun K Bajoria: Just to add, for your information which we have already shared, we have two capacity expansion projects that are undergoing, one for PCR and one for TBR. So, these capacities would also have the latest equipment and technology so, there will be no gap in terms of producing the EV tyres

Subham Agarwal: Okay, got it noted. And secondly, just wanted to understand on the volume growth part, so, Y-o-Y volume growth how much did you mention?

Anshuman Singhania: So, compared to the corresponding quarter, we had a 10% volume growth.

Moderator: Thank you very much, sir. We take the next question from the line of Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi, my question is on volume growth. So of the 10% volume growth can you give breakdown between how did volumes grew between OEM and replacement on Y-o-Y basis?

Sanjeev Aggarwal: We don't have break-up readily available, but, we will get back to you later.

Jinesh Gandhi: Okay. But broadly speaking, would OEM have been more or less flattish to marginal growth and replacement would be flattish to marginal growth and OE would have grown faster would that be the direction?

Anuj Kathuria: Generally, what you're saying is correct, that the OEM growth because of the lower base would be higher, but we will get back to you with the exact number.

Jinesh Gandhi: Sure. second question was on the replacement market trend. So over the last couple of quarters replacement demand has started to moderate on high base of last year, so, are we seeing any signs of recovery in TBR and TBB as well as PCR now?

Anuj Kathuria: So, all the segments are showing good growth, but as I mentioned earlier Q2 is generally a low quarter because of the monsoons. But this time we have seen a very steady demand in the replacement as well and we have been doing consistent business throughout the quarter, month-on-month.

Jinesh Gandhi: Okay and lastly on the Tornel, we are operating at above 90% capacity. So do we see a need to add capacity there as well or we would be servicing that market through the capacity expansion in India, how are we seeing that?

Arun K Bajoria: We have already taken expansion in PCR and TBR in India and similarly, we are also planning some expansion at JK Tornel plant. But for now, the capacity expansion that we have undertaken, shall be completely taking care of the market demand. So, going forward we don't see any gap in the demand versus supply.

Jinesh Gandhi: Okay, and this expansion at Tornel would be more of a debottlenecking exercise I believe?

Arun K Bajoria: That's right, absolutely you said it.

Jinesh Gandhi: Okay, got it. So broadly speaking our CAPEX plans are more or less similar to what we indicated in first quarter earnings call of Rs.1100 over next two years?

Sanjeev Aggarwal: Expansions are absolutely on track and we will be able to complete the project within the timelines.

Moderator: Thank you very much. We take the next question from the line of Mr. Mitul Shah from Reliance Securities. Please go ahead sir.

Mitul Shah: Sir one clarification on your long-term debt, as per this exchange filing that debt levels have remained same as were there in March, it was 2476 crore and recently it is 2470 crore so you highlighted that we have repaid 250 crore till September quarter, so what is the detail sir?

Sanjeev Aggarwal: So, I was referring to the scheduled debt which has been repaid to the extent of about Rs.250 crore. As mentioned, we have also undertaken the new expansion projects, wherein opened LCs and availed buyers' credit which has added in the long-term debt.

Mitul Shah: So, this is in addition to what we have increased in on working capital debt side also right?

Sanjeev Aggarwal: The net debt as on 31st of March was Rs.4,940 crore and as on 30th of September, this was about Rs.5,000 crore so, roughly around the same level, but yes there has been an increase in the short term borrowing to the extent of about Rs.200 crore.

Mitul Shah: Sir, second question on OEM revenue sir, if I look at your standalone business or India business it is almost lead quarter-on-quarter, first quarter versus second quarter. Whereas if you adjust for this 2% or 3% price increase, then there is a decline in volumes of OEM compared to overall production level has gone up by 20% to 25%. So, are we losing market share or what is the major change in mix why is it so?

Anshuman Singhania: In OEM segment, we have increased our revenue through volume growth, particularly in the CV market.

Mitul Shah: In terms of revenue it seems flat Q-on-Q compared to industry volume going up by 25% between the quarters?

Anuj Kathuria: Actually, if you take the, you're comparing with the previous quarter, right?

Mitul Shah: Right.

Anuj Kathuria: If you compare the revenues with the previous quarter in the replacement market, we are up by say, 3% to 4% and in the OEM, it is almost flat.

Mitul Shah: Yes, the production level has gone up by 24% between the quarter, OEM production.

Anuj Kathuria: OEM production you mean the automobile industry product?

Mitul Shah: Yes, sir automobile industry product.

Anuj Kathuria: Okay, you are talking about the OEM production. So, within the OEMs, you will have to also see which OEMs we're talking about, because our in terms of value, our major revenue comes from the commercial vehicle. So, there I don't see that the production has gone up to that extent and also being the half yearly closing, they would also like to correct there stockings position, their raw material inventories.

Sanjeev Aggarwal: But if we compare the H2 corresponding quarter H2 to H2 FY23 to FY22 then corresponding quarter in terms of revenue from OEM, we have increased to 38%.

Mitul Shah: So, lastly if you can give details on Cavendish in terms of volume, revenues or margin or profitability and what would be intersegment revenue here?

Sanjeev Aggarwal: In Cavendish, we have been doing well and the revenues have grown in the case of Cavendish as well. So, in Q2 FY23 the net revenue turnover was registered at 982 crore with an EBITDA margin of 6.3% in the case of Cavendish and the PBT was minus 18. So, this was slightly lost on account of some foreign exchange losses.

Mitul Shah: Sir what was the intersegment revenue?

Sanjeev Aggarwal: So, Rs.200 crore of revenue from CIL to JK Tyres.

Moderator: Thank you very much sir. We take the next question from the line of Mr. Amyn Pirani from JP Morgan. Please go ahead sir.

Amyn Pirani: My question is actually on the anti-dumping duty on Chinese truck aerial, as we understand the duty was supposed to expire in September of this year and it has been put on a review. So any indication as to when we will hear from it and any indication from the government whether this could be extended or what could happen going forward?

Anshuman Singhania: So the duty has been extended right now till December 2022 and the government is still right now reviewing it.

Amyn Pirani: Okay. So we don't have a final verdict yet on the same beyond December?

Arun K Bajoria: No, not yet.

Moderator: Thank you sir. We take the next question from the line of Mr. Pushkar Jain from Jonindre Capital. Please go ahead sir.

Pushkar Jain: My question was, over raw material basket as a whole, how much has the price soften in terms of percentage if you can give you any clarity and if can give you the per unit prices of natural rubber and synthetic rubber currently?

Sanjeev Aggarwal: So, this is what we have been noticing off late in the last about a month or so that there has been price softening in the raw material prices. But in terms of the exact percentage because this is a basket of various commodities. We still have to compute for each of these communities, how much because we have the accumulated inventory as well. So we will let you know next quarter what it is looking like.

Pushkar Jain: And sir if you can give me an actual like in Q1 call you gave the prices of natural rubber, synthetic rubber so can you give me the current price of the same?

Sanjeev Aggarwal: Difficult to comment at this point in time. This is too early to comment because the prices for all these commodities have been quite volatile. So let's see for some more time and then we will comment.

Moderator: Thank you sir. We take the next question from the line of Mr. Jathin from Invest Savvy. Please go ahead.

Jathin: Sir, you have mentioned that the raw material prices impact while they are soften in Q2, the impact wasn't fully realized partly I guess because you have inventory that partially look at the top line. So, there was a price increase at subsequent price increases are there. And on the other end you have seen softening of rubber prices and others. Where do you see your margin going to with Q3 and Q4 because, historically operating margins have been up to 15%, 16% and currently they are at around 8%. So where do you think they will settle down in Q3 and Q4.

Sanjeev Aggarwal: So, when we talk about the margins on long term basis, the average long-term margin is in the range of about 11% to 12% except for the financial year 21 which you are referring, where the margins have shot up to about 15% to 16% range. So, we would be happy to register those kinds of margins again, but at this point in time, we do not know how the markets span out in terms of the raw material prices, and because the crude is also quite volatile. So, we should get some improvement in margin going forward, but how much it would be, it will be really difficult to comment at this point in time.

A.K. Kinra: I would like to add here that, the recent softening in raw material prices would be visible from Q3 onwards. The margins would be slightly better than Q2 in Q3 and also the demand remains robust.

Jathin: Would you say that by the end of the year it is likely that you would be close to your long term margin plans?

A.K. Kinra: It is very difficult to guesstimate at this point of time and maybe keeping in view the volatility in raw material prices as mentioned by Sanjeev, we look forward a improved scale of margins in the next two quarters, i.e., Q3 and Q4.

Jathin: Fair enough. Also in terms of whatever the expansion plans which are there for capacity, what is the plan to fund them and also is there a plan, like while we appreciate that long term borrowing has been reduced, but since the short term working capital requirement of set the same. So, is the company happy to let the debt part, one how will you fund the expansion plans and two, where do you see debt going from here. So, is it that long term will keep reducing and working capital could possibly take the round or take a space created or because of expansion overall debt goes up or you see it a conscious effort to bring it down and like force it to slightly more or rather lower level.

Sanjeev Aggarwal: We are focused and fully committed to reduce our long-term debt going forward and even on the working capital side, we have been managing the working capital in a best possible manner, but because the raw material prices and the finished product prices have gone up significantly in the last one year and increase in the business operations /volumes has resulted in this increase.

Secondly, we have been funding our projects in the ratio of 1.5:1. Further, we have been repaying our existing debt continuously to the extent of about Rs.500 to Rs.600 crore every year. So, there will not be any net increase in the long-term debt going forward.

A.K Kinra: Further with the improved margins as mentioned by MD in Q3 and Q4. It will give us some leeway to achieve these both the objectives of debt reduction and part funding of the CAPEX by way of internal accruals.

Moderator: Thank you very much. We take the next question from the line of Mr. Aditya Soni, Individual Investor. Please go ahead sir.

Aditya Soni: I just wanted to know the demand outlook for quarter three for the Indian operation, especially in the Truck and Bus segment?

Anshuman Singhania: Demand growth you're talking about, right?

Aditya Soni: Yes, the demand for quarter three.

Anshuman Singhania: Sorry, your voice is not very clear. Can you please repeat to have a better understanding of your question?

Aditya Soni: Yes, I just wanted to know the demand outlook for quarter three, in respect of the domestic business for the CV segment.

Anshuman Singhania: CV is expected to do good and will benefit from structural upcycle over the near to medium term and CV market is picking up as you would know that the core industry like cement, mining, steel industry has picked up and infrastructure. So, we are expecting that CV market will be more buoyant in the coming quarters.

Aditya Soni: Right. So this is in respect, so could you just give us the split as well like in terms of replacement market and OEM as well. Like how do you expect both of them individually to prove?

Aditya Soni: In respect of the growth outlook sir?

Sanjeev Aggarwal: As per one of the reports of rating agencies, published very recently shows that CV industry which was peaked at in the year 2019 is likely to get repeated in FY23 and FY24. So, according to their assessment, 1 million number of automobiles, including the LCV and MHCV. So, we expect to see a good growth in this financial year as well as next financial year.

Anuj Kathuria: Just to add especially in the MHCV segment the vehicle or their product mix has gone for a higher tonnage. So this means number of wheels or the number of tyres per axle, per vehicle has actually gone up, which is a good sign for us.

Moderator: Thank you sir. We take the next follow up question from the line of Mr. Nirav Seksaria from Living Root Capital. Please go ahead, sir.

Nirav Seksaria: Sir could you also comment for the increase in exceptional items?

Sanjeev Aggarwal: The exceptional items primarily are foreign exchange losses, because as you would know that there has been an appreciation of dollar vis-à-vis rupee in this quarter to the extent of about 3% within the quarter itself. So, to that extent we had to reinstate our foreign exchange loans and exposure. The amount is majorly unrealized losses, which is mark to mark losses, which we have provided in the books of accounts in line with accounting standards and accounting guidance notes issued by the Institute. We believe once the rupee starts strengthening vis-à-vis the dollar, as the guidance given by the bankers and experts dollar - rupee parity should be in the range of about 80 to 82 by the end of the financial. So, this is just a reinstatement for the purpose of mark to market loss on the foreign transactions like loans, creditors and debtors.

A.K. Kinra: All the dollar liabilities are to be stated at the rate as prevailing on the last day of the quarter. As Sanjeev has said, going forward with the expectation of the rupee dollar parity to be slightly better, all these unrealized losses will be reversed, if the actual payments has not made.

Moderator: Thank you sir. We take the next follow up question from the line of Mr. Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir, I have question again on your CAPEX, cash flow and debt. Sir as you highlighted in earlier call also CAPEX of roughly 1100 to 1200 crore for two years that is nearly 600 crore annually. So, in first half we spend around 200 crore CAPEX, so roughly 350, 400 crore CAPEX is yet to be spent in second half. Also, we are indicating 400, 500 crore kind of a debt repayment which remains flat right now so, if I will do this maths, it's coming 800 to 900 crore kind of a cash flow generation from operations in second half compared to what we generated nearly 400 crore in first half. So, I'm not getting how we'll.

Sanjeev Aggarwal: Mr. Shah, the expansion project will be funded partly by way of loans as well which is in the ratio, 1.5:1. So, whatever internal accruals are required w.r.t to the project shall be generated, to give you some more comfort in the first quarter we have mentioned earlier also, we had received a some of Rs.200 crore from the government against the outstanding GST receipts and export incentives. So, that cash is available with us. Therefore, we don't see any challenge as far as the cash requirement is concerned to fund these projects and because the loans will also get disbursed, so everything will fall in place.

Mitul Shah: So, based on that calculation roughly our net debt can be slightly higher maybe around 500, 700 crore?

Management: So, Rs.766 core of the CAPEX which will get funded in the ratio of 1.5:1 and the Rs.300 crore is the maintenance CAPEX which we have made. We will raise debt in the project to part fund the project. Therefore, net debt increase will not be as much as what we are going to repay in the next two years' time.

Mitul Shah: Sir lastly if you can throw some more light on Mexico tyre industry in terms of this replacement which segment within that or which products are doing well in our market share trend, and what is the potential there?

Arun K Bajoria: Mexican industry - The PCR tyres growth is reasonable and we are growing in the range of 8% - 10% and will continue and our market share are steadily increasing in this segment, this momentum will continue at least for the next two to three years. Beyond that, we will not be comment at this point of time. In truck bus radials segment market is growing, a little lesser than the passenger car radial and there we are not manufacturing TBR in Mexico, but we are feeding the market by getting tyres from India as well as from our other outsource partners. The market is certainly de-growing in truck bus bias segment. We are now expanding into or diversifying into industrial tyres as well as into farm tyres. So, this is the situation, but overall the growth in the Mexican market is quite reasonable.

Mitul Shah: Sir, how has been the pricing there, how much we have taken increase in Q2 and first half?

Arun K Bajoria: Overall, I would say that the price increase taken in Mexico is roughly about 16% in the last 15 months to cover the raw material cost increases. But if we are able to take another 1% or 2% going forward, then we will be a little more comfortable in terms of our operating margin.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for the day. I would now like to hand the conference over to the management of JK Tyre for closing comments.

Management: Thank you very much for joining us on this call. And we hope we have been able to reply your questions to your satisfaction. I on my own behalf and on behalf of JK Tyre once again thank you everyone. Thank you.

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

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3.