“JK Tyre & Industries Limited
Q1FY23 Earnings Conference Call”

August 09, 2022

MANAGEMENT:	**MR. ANSHUMAN SINGHANIA – MANAGING DIRECTOR, JK TYRE & INDUSTRIES LIMITED** **MR. ARUN KUMAR BAJORIA – DIRECTOR AND PRESIDENT (INTERNATIONAL), JK TYRE & INDUSTRIES LIMITED** **MR. ANUJ KATHURIA – PRESIDENT INDIA,** **MR. SANJEEV AGGARWAL – CHIEF FINANCIAL OFFICER, JK TYRE & INDUSTRIES LIMITED** **MR. A.K. KINRA – FINANCIAL ADVISOR, JK TYRE & INDUSTRIES LIMITED**
MODERATOR:	**MR. BASUDEV BANERJEE - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to JK Tyre and Industries Q1FY‘23 Earnings Conference Call hosted by ICCI 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 phones. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudev Banerjee from ICICI Securities. Thank you and over to you sir.

Basudev Banerjee: Hi friends. Warm welcome to all participants in the Q1FY’23 JK Tyre post result conference call. And thanks to the management for giving us the opportunity to host the call. We have with us representing the company Mr. Anshuman Singhania – Managing Director, JK Tyre; Mr. Arun Kumar Bajoria – Director and President - International; Mr. Anuj Kathuria – President India; Mr. Sanjeev Aggarwal – Chief Financial Officer; and Mr. A.K. Kinra – Financial Advisor for JK Tyre.

Over to you Mr. Anshuman Singhania for your initial comments and discussion on the call. Thanks.

Anshuman Singhania: Good Afternoon everyone and a very warm welcome to JK Tyre’s Q1FY23 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. A.K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of the Company.

Further, i am happy to introduce to you, Mr. Anuj Kathuria, who has recently joined us as President to look after India operations. Mr. Kathuria brings with him 31 years of rich experience, having worked in senior management positions in leading auto companies, including Ashok Leyland and Tata Motors.

Now coming to the performance, JK Tyre recorded yet another quarter of highest ever sales of Rs.3,650 crore, registering a remarkable growth of 39% viz-a-viz Q1FY22. This has been achieved on the strength of higher sales in the domestic markets (replacement and OEM). During the quarter, export volumes were sustained despite global disturbances. There is a continuous focus to increase exports to targeted geographies across North America, LATAM and Middle East.

The automotive industry in India is definitely showing positive signs of a robust demand in the FY23. We expect the demand to further grow during the second half of the FY23. There is a sharp increase in CV volumes driven by MHCV and LCV sub-segments in the domestic market due to improved activity in road construction, mining along with growth in agriculture and e-commerce activities. Further, there is a notable growth in bus segment on the back of re-opening of schools, offices and surge in travelling post pandemic.

Domestic tyre demand continues to be buoyant on account of higher vehicle utilisation emanating from improved economic activities, domestic consumption and strong preference towards personal mobility resulting in robust demand for CV and PV tyres in both replacement and OEM segments. The utility vehicle (UV) witnessed significant growth reflecting the changing preference toward UVs which now constitute almost half of the total PV domestic sales. We have been continuously increasing our volumes in these categories and ramping up our volumes further in this premium segment, more so in higher rim size tyres.

On the outlook of the Tyre Industry, we believe multiple demand drivers create India's growth story and demand outlook in automobile and tyre industry, despite global fears of slowdown, geo-political disturbances and supply chain constraints. We believe domestic consumption and healthy infrastructural spends will drive the growth in near future. CV, which is a major revenue contributor for us at 56% is expected to benefit from the structural upcycle over the near to medium term.

Raw material and other input costs witnessed an on-going uptrend which impacted margins. The company has undertaken periodic price increases. Operating profitability improved on quarter on quarter (q-o-q) basis, mainly on account of operating leverage, efficiency improvement and price hikes.

Raw material cost increase is likely to continue in Q2FY23, based on the lag effect, which we expect to pass on through further selling price increases.

Going forward, some moderation in the raw material prices is likely due to correction in crude oil and commodity prices. We perceive further improvement in margin from H2FY23 onwards.

As announced earlier, we have successfully completed the de-bottlenecking program to unleash PCR capacities at Banmore and Chennai in the previous quarter. Further, with regards to TBR and PCR expansion, both the projects are under implementation and progressing well.

Risk identification and mitigation are essential to sustain our growth amid dynamic business environment affected by market turbulence, technological advancements and constraints in raw material availability. We have a strong and prudent risk management framework to identify, assess and quantify all the possible risks and concerns that may affect the Company's performance.

At JK Tyre, innovation and technology are the core pillars and each of our product categories is ahead of its time to meet the need of our customers and industry. With the evolution of the EV sector in India, the development of EV-oriented technology remains a key focus for the company. Further, 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.

Now, I request our Mr. Bajoria to talk about the performance of subsidiary companies.

Arun Kumar Bajoria: Thank you Anshuman ji. With regards to the JK Tyre subsidiaries performance, both the subsidiaries continue to contribute well in terms of overall revenue and operating profit. Cavendish Industries Ltd. recorded highest ever net revenue of Rs.942 crore in Q1FY23 as compared to Rs.687 crore in Q1FY22 (corresponding quarter), registering a growth of 37%. Operating margins at CIL were under pressure due to unabated increase in input costs.

JK Tornel, Mexico continued to perform well, despite global disturbances. During the quarter, JK Tornel achieved highest ever turnover of MXN 1750 Mn. (equivalent to Rs.673 crore) as compared to MXN 1278 Mn. (equivalent to Rs.471 crore), an increase of 37% in peso terms. Operating profit at MXN 155 Mn. (equivalent to Rs.60 crore) is an increase of 36% in peso terms on y-o-y basis. There has been significant improvement in operating parameters at JK Tornel with plants running at 90% and volumes increasing each subsequent quarter.

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

Sanjeev Aggarwal: Thank you Sir. Let me now take you through the key highlights of the financial performance in Q1FY23. The consolidated sales were recorded at Rs.3,650 crore, which is the highest ever as compared to Rs.2,618 crore in the corresponding quarter, registering an increase of 39% on y-o-y basis. The average capacity utilisation was 90% during the quarter. Export revenues were recorded at Rs.458 crore viz-a-viz Rs.476 crore in Q1FY22.

Profitability at EBDITA level in Q1FY23 was recorded at Rs.291 crore as against Rs.289 crore in Q1FY22. Operating profit margins were recorded at 8% which is up by 90 bps as compared to previous quarter. Cash profit for the quarter stood at Rs.190 crore and Profit before tax (PBT) stood at Rs.57 crore.

Our finance cost in Q1FY23 has declined by 8% on y-o-y basis to Rs.99 crore from Rs.108 crore. We are following strict credit discipline and efficient cash management to lower working capital in business and unblocking of funds to minimize the impact of interest rate hikes. The leverage ratios of the company remains at comfortable level. 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 well as on the stock exchange website. Now, we open the forum for question and answer.

Moderator: Thank you, ladies and gentlemen, we will now begin with the question & answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: So, firstly on this capacity expansion, our current PCR capacity it is 14.5 million tyres. And how that will go up after expansion.

Sanjeev Aggarwal: The total capacity will become 123 lac tyres in India in addition to PCR capacity in Mexico and this is a 35% increase over the pre debottlenecking level, which was at 90 lakhs tyres and now this will become 123 lakhs tyres after the expansion.

Ashutosh Tiwari: So 90 lakhs will go upto 123 lakh tyres. This is only India right.

Sanjeev Aggarwal: Yes.

Ashutosh Tiwari: And where we are currently?

Sanjeev Aggarwal: We are somewhere in between, because as Anshuman ji, said debottlenecking program has been already completed and we are now working on the expansion plan of PCR Rs.530 crore.

Ashutosh Tiwari: Okay and with regards to TBR expansion, how we are planning, is current capacity is 3.7million now and where this will go upto?

Sanjeev Aggarwal: 40 lakhs tyre post expansion.

Ashutosh Tiwari: And it will before this year end?

Sanjeev Aggarwal: We are on track and shall be completed by March '23.

Ashutosh Tiwari: Secondly, Mexico is doing pretty well, I think our profits have increased, also EBIT has increased from 31 crore to 47 crore. Margins have also improved. So, is there no impact of commodity inflation in that market? Any reason why they're doing so well and how should we look at it going ahead?

Anshuman Singhania: There is a similar increase in raw material prices in Mexico as well, but we were able to pass on the most of it. Therefore, you see the better profitability than in India. Going forward, I would only say that if there is no further raw material price increase, then I believe you should see similar results in the coming quarters in India as well.

Ashutosh Tiwari: And lastly, last year, we had received an INR 90 crore subsidy incentive from government. Was there any amount received in this quarter as well.

Sanjeev Aggarwal: We have received some amount during the quarter.

Ashutosh Tiwari: How much is it.

Sanjeev Aggarwal: We have received around INR 200 crore towards GST incentive from Tamil Nadu State Govt. for Chennai plant, also this amount includes export incentives. This is the accumulated amount for previous years.

Ashutosh Tiwari: We received in this quarter or last year.

Sanjeev Aggarwal: This quarter.

Ashutosh Tiwari: What is the total amount?

Sanjeev Aggarwal: Around INR 200 crore.

Ashutosh Tiwari: 200 crore is this quarter?

Sanjeev Aggarwal: This is on receipt basis as I said. This is the accumulated amount for the previous years.

Ashutosh Tiwari: No but on consolidated level our EBITDA in this quarter is INR 290 crore, If you're saying INR 200 crore is just incentive amount, then actual EBITDA is quite low.

Sanjeev Aggarwal: Let me clarify, this amount is on receipt basis, this amount has been already account for or accrued in previous years, only we have received that amount in this quarter.

Ashutosh Tiwari: Okay, fine, thank you.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Revanta Fund. Please go ahead.

Nisarg Vakharia: Yes. Good evening, gentlemen. Just wanted to understand one, you've written, an INR 500 crore brownfield capex, since we have sort of front ended a lot of capex over the last few years, so till what round of brownfield capex do we not have to incur large greenfield capex again, I mean, how many brownfield capex rounds can we do over the next three to five years?

Sanjeev Aggarwal: Presently, we have been expanding the capacities for TBR and PCR and I think there is a further scope of another round expansion of PCR. So, we can continue to go ahead with the brownfield expansion for PCR one more time and then we will revisit the situation and then we will accordingly take up the greenfield expansion if any.

A.K. Kinra: Just to add what Mr. Sanjeev Agarwal has said, it is a very dynamic situation and we will keep a close watch on the demand in the market and as and when situation demands, we will certainly plan for further expansions.

Nisarg Vakharia: Okay, so because a lot of tyre companies that have invested into radial capex, whether it's you or Apollo have done a lot of Capex over the last four or five years. So we're just trying to understand that now, a large part of the country is already radialized, incrementally will their Capex requirements be lower than what it was four years ago, hence putting lower stress on our balance sheet?

Sanjeev Aggarwal: So I think we have answered your question.

Nisarg Vakharia: That's fine. Second question is that sir, resuming from the previous participant Ashutosh, just to clarify your existing EBIDTA does not include INR 150 crore receipts from GST, right?

Sanjeev Aggarwal: That's correct. So whatever the GST incentive accrued during the quarter that only becomes a part of the current quarter's earnings.

Nisarg Vakharia: And that balance amount goes in cash flow, but it does not go through the P&L.

Sanjeev Aggarwal: Absolutely correct.

Nisarg Vakharia: Okay. That's the clarity. Number three, sir, that we have a dominant position in Truck and bus radial tyres. Now, you mentioned that in other parts of the world, like you mentioned Mexico even though there has been adverse impact of raw material, you could easily pass on the price increases to the customers. Now, do you foresee a situation like this ever emerging in India, I mean, we have suffered a lot because of raw material disruptions, but somehow all players in India are not able to pass on these increases together to the customers, do you think that situation can change at any point of time?

Anshuman Singhania: In India, the company has taken a price hike in the tune of 4% in Q1 FY23 and we may take further price increases of nearly 2% to 3% in Q2FY23 to moderate the impact on the margin, depending upon the market condition. India being a very price sensitive market, we have to consider the market conditions and environment, whereas in export or Mexico, usually prices are passed on immediately in the market.

Nisarg Vakharia: That is I'm assuming because of the discipline that is maintained by all tyre manufacturers, right. It's not only you.

Anshuman Singhania: Yes.

Nisarg Vakharia: Okay. Lastly, I wanted to ask you that, is there a target of debt reduction that we would like to sort of look at over the next two years, what should we -- last quarter if I remember correctly, we were at INR 5200 crore of debt. What should be that debt number be over the next let's say one year or two years. And number two, what is the -- assuming we don't do any Capex as a hypothetical scenario, what is the maintenance capex that we have to incur per year just to maintain and sustain the existing gross block?

Sanjeev Aggarwal: Let me take your second question first. So, every year we are incurring almost about INR 150 crore for the maintenance of our plants on a consolidated basis.

As far as the term loans are concerned, we will be repaying almost about INR 400 crore of debt each year till FY25. There will be some bit of additions on account of expansions / other capex each of these years, but broadly, we will be repaying another INR 1200 crore of long term debt by FY25.

As far as the working capital is concerned, we have been keeping a very tight control on the working capital and trying to optimize the working capital levels, but we have seen that this is directly proportionate to the business and the operations of the company and in the last one year, in fact, this has increased significantly because of the input cost increase and also the operation levels which has gone up significantly.

Moderator: Thank you. The next question is in the line of Nirav Seksaria from Living Root Capital. Please go ahead.

Nirav Seksaria: So my first question is, so, can you give the breakout of revenue growth by price and volume.

Anshuman Singhania: Overall revenue growth of 39% in the quarter was contributed by volume growth of 22% and remaining 17% is by way of price increase.

Nirav Seksaria: And so the question is due to increase in raw material last year, how much price increase do we have to take to cover it up?

Anshuman Singhania: On raw material front we have seen a 5% increase in Q1FY23 that requires around 4% selling price to be increased. So, we take in already a 4% price increase in quarter one further, we are expecting to take 2% to 3% in quarter 2 in this FY ’23.

Nirav Seksaria: So that was basically to follow it up it will cover up the previous raw material increases?

Anshuman Singhania: It is not going to cover up the previous year price increase of the raw material.

Nirav Seksaria: Can there be any rough estimate in the future that we might take to cover it up?

Arun Kumar Bajoria: As Anshuman ji just said that the price increase of 2% to 3% in the next quarter Q1FY23, which we are expecting to take or we intend to take is also dependent on the increase in raw material prices, Secondly, there is no increase in prices for the past under recoveries. We will see that how much we can pass on in future.

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

Jinesh Gandhi: Hi, just wanted to clarify the cost increase in 1Q was 4% is what you indicated right and what kind of cost inflation we do see for second quarter.

Sanjeev Aggarwal: It is 3% to 4% in the first quarter, raw material price increase was 5%, the impact was 4% and In Q2, 3% to 4% raw material price increase is likely and the impact of that would be between 2% to 3%.

Jinesh Gandhi: Sure. That's fair point and the second question was with respect to our Capex. For FY '23, what kind of Capex number should we budget?

Sanjeev Aggarwal: We have been progressing well on the expansion capex. The total capex of INR 1,100 crore as declared in the last quarter, includes the maintenance capex of INR 150 crore to spend over next two years. With respect to expansions we have started working on the ordering at this moment and we expect that at least 40% of the total amount of Capex amount will be incurred in this financial year.

Jinesh Gandhi: And lastly, with respect to utilization level of how we could be in India now, you mentioned TORNEL is about 90%. How would be for Indians capacities for PBR, TBR?

Sanjeev Aggarwal: Mr. Jinesh, this is similar in the case of India and as well as TORNEL.

Moderator: Thank you. The next question is on the line of Noel Vaz from Asian Markets Securities. Please go ahead.

Noel Vaz: Thanks for the opportunity. So I just had one query regarding exceptional item loss which has happened in the quarter. So for INR 35 odd crore. So that is due to adverse effects?

Sanjeev Aggarwal: This is majorly on account of mark to market loss on the foreign currency term loans in the company, which is unrealized loss or notional in nature.

A.K. Kinra: Basically mark to market on foreign currency liabilities / assets to the market rate as prevailing as on the last day of the quarter, this is the effect of that only. So, that is why this impact has come.

Noel Vaz: Actually so, just a follow up, in case rupee depreciate further than would we see or says if it appreciates very sharply then would we see some kind of a rise back or in further items is there a possibility?

Sanjeev Aggarwal: As per the accounting standards issued by the Institute of Chartered Accountants, we have to provide mark to market on the foreign currency term loans, since, these are foreign currency loans and if the rupee depreciates further, of course, the impact will come. But as far as the guidance which has been given to us by the experts on currency, so, they have been talking about a range and in future and this is my very personal opinion that it may not be the case in future. So, the major impact of that has already been factored in and in case of rupee appreciation, we will be able to recoup the notional losses, and this will become unrealized gain impact.

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

Mitul Shah: Thank you for giving me the opportunity and congrats on a very strong operating performance. Sir, I have a question on export revenue, it seems that export revenue has come down despite even if you adjust for this currency benefit, then there is a more declined, since the volume decline is sharp. Is it right, understanding and can you give more details on that?

Anshuman Singhania: When the export performance has maintained a high base number in Q1FY22, despite challenges in geopolitical economic conditions and intensified competition from Southeast Asia. It has been possible to sustain our export on account of our quality of products, best in class service with our customers. More so the demand of JK Brand tyres of radial continue to be sustained across the geographic and we continue to strengthen our position in North American markets. In order to sustain and continue growth, our export, we are focusing in intensifying and strengthening our brands in the international markets. There has been in fact, a sharper increase in our value in the mix to North America as compared to the first quarter last year, corresponding quarter. And we have also strengthened Europe Middle East and Asia as well. So, we are continuing and plus we are seeing a good demand which is also coming our way here in India as there are multiple drivers as mentioned earlier because of the infrastructure and other areas.

Mitul Shah: Initially highlighted price hike is around 17% So, I assume more or less similar price in export market also and currency benefit in the range of 5% to 10%. So, if we put together, volume decline seems to be very high, double-digit decline Can you give volume percentage decline or any number on that side for export sir?

Sanjeev Aggarwal: There's no volume decline in exports as such when we compare it with the corresponding quarter, as compared to the previous quarter definitely there is some volume decline, but as Anshuman ji just clarified that the is a first preference is to cater the domestic market. The production first has to be catered to domestic market and then of course, to the export markets where we have been also strengthening our position particularly in North America and LATAM.

Mitul Shah: And going forward for next two to three quarters, Q2 onwards which segment do you see outperforming OEM replacement or export?

Anshuman Singhania: We see the demand in the OEM is coming back particularly in the CV segment which was muted for a long time and because of the infrastructure push and other core industry is coming back for example cement, steel. We are seeing that in PCR, chip shortage is easing out and there is a good demand which is going to be coming in that sphere. Because of the good monsoon, we will see tractor and two – three wheeler sales to pick up. We are expecting good demand is coming our way.

Mitul Shah: Yes sir. Will we again go back in a normalized way wherein replacement used to be roughly around 50% - 55% Right. So last time replacement was around 54% YoY I'm comparing this time it has come 60% and as replacement margins are high so we got benefited from this favorable mix. But going forward if it normalizes and higher growth comes from the OEM side can we expect some moderation on the margin side?

Anshuman Singhania: Margin side there would be some moderation but I would say it would be on the positive side because CV market which was much muted and more particularly in the OEM, will have a good traction coming. So I don't think so, there should be any negative impact on the margin. In fact, it should improve the margins.

Mitul Shah: okay sir, lastly, can you give some indication or approximate volume guidance for FY '23 on the -- for industry on replacement and OEM side?

Anshuman Singhania: This will be very difficult to give the volume guidance for each of the segment?

Moderator: Thank you. The next question is from the line of Jatin from Investsavvy. Please go ahead.

Jatin: So, I have one question that you have mentioned about your short term borrowings, that is going to come in the range of INR 1,800 crore. So, by the end of this current financial year, that's you have mentioned that will reduce.

Sanjeev Aggarwal: I said this INR 1800 crore of short term borrowings, which are already there today, is likely to come down to about maybe INR 1600 crore. We are planning and optimizing our working capital, but this is also linked to level of the utilization of our capacities. So, today, we are operating at 90% level and as we have been making efforts to increase it to maybe towards 95%, going forward. So, the working capital requirement initially may move up. Nonetheless, we have been keeping a close check and optimizing the utilization of working capital utilisation.

Jatin**:** Okay, and one more question, sir. You were saying that by looking at commercial vehicle demand outlook, and you're also taking up periodically price hikes, so you try to maintain your margin also. So, I'm expecting can we expect some kind of double digit guidance operating margin going forward.

Sanjeev Aggarwal: We expect the margins to improve, but this is all depending upon the kind of raw material price hike increase takes place. Our endeavor is to increase volumes, as much as possible, take the market share as much as possible. We are hoping for a better margin scenario going forward.

Moderator: Thank you. The next question is from the line of Amit Aggarwal from Leeway Infotech. Please go ahead.

Amit Aggarwal: Good evening. My question is regarding rubber prices, have they already come down compared to the first quarter and if the rubber prices keep on going down? So, is there any chances of rolling back of the prices or our tyres?

Anshuman Singhania: The rubber prices, synthetic rubber and carbon black which is around INR 170 rupees per kg, INR 185 per kg and INR 130 per kg respectively in Q1FY23 whereas it in Q4FY22 it was hovering around, natural rubber was INR 163 rupees per kg and INR 178 per kg synthetic rubber and carbon black INR 111 per kg. There is a slight increase as compared to the previous quarter and we Expects from H2 onwards some stability should come.

Amit Aggarwal: So, there is a lag between the oil prices and rubber prices, because oil prices have come down compared to quarter one, I suppose or maybe right now the oil prices are down. So, is there any lag or is the impact immediate?

Anshuman Singhania: There is always a lag effect which there in terms of pricing as crude oil is coming down it will have impact on its derivatives too in coming quarters.

Amit Aggarwal: So, what is the margin expansion should we expect in H2, margin expansion I'm talking about.

Sanjeev Aggarwal: It is very difficult to actually predict at this point in time, when we are seeing so much of uncertainty globally and just to add one more point as far as the raw material is concerned, it's not that the crude oil prices has started to come down it may get reflected as there is a lag effect and secondly the demand supply for its own, actually will determine the price for any raw material. But yes, directionally, I think if the crude oil prices have started to come down and other prices, then there will be lower increase in raw material prices and then we can expect to get some margin expansion.

Amit Aggarwal: But can you name a figure, 2% or 3% or something like this.

Sanjeev Aggarwal: We have clarified this point earlier that next quarter, we are expecting the raw material prices to move up by 2% to 3% and we are hoping for the similar price increase.

Amit Aggarwal: You mean quarter two or you mean quarter three.

Sanjeev Aggarwal: Quarter two is what we have been talking about.

Moderator: We will move on to the next question that is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Thank you for the follow up opportunities. Sir I have question on Mexico operations. How the industry situation there and what kind of industry growth we expect from that or any market share gain and what is our situation there?

Arun Kumar Bajoria: The industry scenario in terms of the tyre in Mexico is quite good, I will say going forward, our capacity utilization should increase. Because the demand is quite robust, not only in Mexico but also in the other Latin American countries.

Mitul Shah: What is the ratio over there now in terms of export versus domestic consumption?

Arun Kumar Bajoria: 30% is export and 70% is domestic.

Mitul Shah: In next two, three years what kind of opportunity do we see on export side from there, or this 30% can go to – what is our aim?

Arun Kumar Bajoria: There's a very strong domestic demand and we would not like to miss on the domestic market shares as well as the numbers that we can sell locally and our profitability is quite good on the domestic front.

Mitul Shah: Okay. So and lastly on market share domestic side, can you give some ballpark number or YoY or QoQ improvement on whatever two - three key segments?

Anshuman Singhania: We are trying to further gain market share in all the segments.

Mitul Shah: So, do we follow any hedging strategies as our export is now becoming sizable.

Sanjeev Aggarwal: We definitely follow hedging strategies which is as per the company's Foreign Exchange Management Policy and at the moment most of our imports are naturally hedged through exports and which is up to the level of 75% on trade front and in the case of the term loans, we have almost like 60% of our loans are fully hedged. So, that is the broad guidance, which has also been given under the management policy for an exchange management policy.

A.K. Kinra: We as a company, do not indulge in any speculative hedging or anything also we do not take very exotic derivative products which are available in the market.

Sanjeev Aggarwal: Absolutely.

Moderator: Thank you. The next question is in the line of Noel Vaz was from Asian Market Securities. Please go ahead.

Noel Vaz: Yes, actually, just one follow up question. So regarding the CapEx, so just to confirm the growth capex over FY '23 – '24 is estimated at about INR 1100 crore and 40% to be incurred in FY '23. Right.

Sanjeev Aggarwal: Right.

Noel Vaz: Yes, and so, just to wrap up also maintenance CapEx run rate should be about INR 150 crore per annum, I think that is what you said earlier in the context.

Sanjeev Aggarwal: Yes, this is included in capex guidance of INR 1100 crore, i.e., maintenance Capex of INR 150 crore each for FY23 and FY24.

Moderator: Thank you. The next question is from the line of Amit Aggarwal from Leeway Infotech. Please go ahead.

Amit Aggarwal: Thank you for giving me the opportunity. Again, my question is regarding the interest rates and the scenario. Interest rates are going up across board, so do you see any splattering of demand by the middle of next year because next year how would it affect the margins that margins have been low historically for last five, six years.

Sanjeev Aggarwal: **W**e have been seeing a very good demand in this financial year as well expects this momentum to continue in the next financial year as infrastructural and freight movement has gone up significantly post pandemic. India growth story, which is very good today and we do not expect any flattening in demand even in next financial year, even if interest rate scenario is against us for the time being, but we do not see any slackening in demand.

Amit Aggarwal: Yes, but surprising we have only three four companies, big companies in the domestic market. Margins should be around 8% to 9% for a company like ours, such a big company, margin should be 9%. What is your explanation or what is your thought process for this?

Sanjeev Aggarwal: There are multiple factors including the product mix and markets we have been serving in and like in our case of our company, we have been selling also in a big way in the OEM segment where the margins are comparatively lower, compared to the replacement market.

Anshuman Singhania: Just to add, the raw material has been the major constitutes of this margin.

Amit Aggarwal: Okay. Anything you want to say about the EV market, like what is your plans for EV market?

Anshuman Singhania: We are very focused on the India's EV story, we are very watchful towards EV transition. We have already developed the Truck, PCR and 2/3 wheelers tyres. We are the first company to supply EV tyres on JBM buses. We are already in advanced talks with the OEMs and we have recently launched EV product range in the market.

Amit Aggarwal: Do you need capital expenditure, like conversion from normal tyres to EV tyre production?

Anshuman Singhania: Production happens on the same production facility of the normal tyres. It is on the same lines. So you don't have to invest on separate lines.

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

Sanjeev Aggarwal: Thank you very much. I once again thank you for joining the call today for Q1 '23 and we hope we were able to reply to your questions to your satisfaction and on behalf of JK Tyre, once again, thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities. That concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you