"JK Tyre & Industries Limited
Q4 FY 22-23 Results Conference Call"
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MODERATOR:	**MR. BASUDEB BANERJEE – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the JK Tyre Industries Limited Q4 FY22-23 Results 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 star, then zero on your touch-tone 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: Hi, thanks. Good morning to all participants and thanks to the management for giving us the opportunity to host the call. I'd like to introduce the management represented by; Mr. Anshuman Singhania, Managing Director, Mr. Arun Bajoria, Director and President, International Business, Mr. Anuj Kathuria, President, India Business, Mr. Sanjeev Aggarwal, CFO, and Mr. A.K. Kinra, Financial Advisor.

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: Thank you. A very good morning to everyone. It is with great pleasure that I welcome you all to Q4FY23 earnings call. 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, let me thank all our customers, channel partners, bankers and stakeholders for continued partnering and trust reposed in JK Tyre's growth journey. We are delighted to share the performance highlights for Q4FY23 and FY23, which ended on a positive note, in terms of record high revenues of Rs.14,681 crore, registering an increase of 22% on y-o-y basis. Operating margins recovered to double digit level in Q4FY23. Subsidiary companies, namely, Cavendish Industries Ltd. and JK Tornel, Mexico continued to perform well and contributed significantly to the revenues and profitability on consolidated basis.

Talking about the performance, Q4 was another strong quarter as far as domestic business is concerned, which witnessed healthy growth in key product segments like commercial and passenger vehicle tyres led by strong replacement and OEM demand. However, the growth in the domestic business was offset by the export sluggishness witnessed during the quarter owing to economic and geopolitical conditions globally. Export sales were subdued at Rs. 331 crore in Q4FY23 resulting in lower exports for the year FY23 at Rs.1787 crore. We expect normalization of exports in H2FY24 onwards.

Operating margins improved sequentially in the 4th quarter of the FY2023, aided by softening in input costs and commodity prices. We expect margins to improve further in coming quarters on account of stable raw material price scenario.

Automobile Industry continues to witness buoyant demand in CV and PV segments leading to further strengthening in FY24 on the back of continued thrust of government on infrastructural development, easing in chip shortages and rising disposable income.

On the overall outlook, we remain optimistic on tyre Industry growth path in coming years, on the back of uptick in economic activities and sustained momentum in development of urban infrastructure and road construction projects.

As we are progressing on our growth journey, we are focusing on better product mix, enhanced market presence including geographical diversity, continued thrust on operational excellence and digitalization. This will lead to improved operational and financial performance.

Product Development: Our product strategy is to further align with the trends witnessed in terms of higher performance SKUs in CV segment and bigger rim sizes tyres to cater to the growing SUV segment. We have been frequently introducing new SKUs in these major product categories including the EV vehicles which are also now on the cusp of demand growth.

We have recently launched Ultra High Performance Tyre – "Levitas Ultra" range to strengthen our product portfolio and focus on premiumisation in the market place for high end luxury cars.

Channel Development: We are aggressively expanding our market reach through additions in brand shops, onboarding new fleet customers and have also been conducting Customer Interaction Programme (CIPs) – "JAISA VYAPAAR – VAISA TYRE" for better connect and spreading awareness for our products.

Digitalization: We have undertaken projects for digital transformation across functions including tech-enabled manufacturing at all our plants and have started to accrue benefits. Such digitally supported efficiency and productivity initiatives will continue to be our utmost priorities.

Sustainability: Implementing sustainable practices, developing sustainable products and setting global benchmarks in resource conservation is the key to our core values.

In this direction, we have developed an all-new sustainable tyre "UX Green" in the PCR segment. The green tyre delivers high performance with a lower carbon footprint compared to the standard radial tyre. The tyre has been designed and developed using 80% sustainable materials. This development is not only a reflection of our highly competent R&D team, but also reinforces our serious commitment to advancing sustainable growth and boosting societal value creation, moving towards carbon neutrality by 2050.

New Vision and Mission: We have adopted new vision of becoming a green and trusted mobility partner with missions set in line with our commitment towards focus on sustainable development, reducing carbon emission intensity, continuous process & product innovation, and customer centricity, which we believe will add significant value to all our stakeholders.

As you are already aware, IFC, a member of the World Bank Group, has invested Rs. 240 Crores (USD 30 Million) in the company by way of CCDs on preferential basis, which reflects its confidence in the future of the company and the Tyre Industry at large.

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

Arun Bajoria: Thank you very much MD sir. Regarding Tornel, JK Tornel, Mexico continued to perform well in terms of overall revenue and profitability in FY23. JK Tornel achieved turnover of Rs.2,673 crore as compared to Rs.2,120 crore in FY22, registering a growth of 26%. Operating profits (EBIDTA) stood at Rs.215 crore viz-a-viz Rs.187 crore in the last year, despite headwinds in US and LATAM markets.

Quarter 4 witnessed a revenue growth of 14% on y-o-y basis and 10% on q-o-q basis, revenues for Q4FY23 stood at Rs.671 crore. US and LATAM markets continue to face challenges of high inventory levels / destocking at distributors end due to reduced ocean freight rates from Asian countries, which resulted in pressures in terms of selling prices, thereby impacting operating margins in Q4FY23. Going forward, the global demand is expected to improve.

JK Tornel continues to enjoys healthy demand for PCR and LTR in the Mexican replacement and exports market. Going forward our focus would be to improve volumes in these categories for overall improvement in business operations.

JK Tornel organized 8th Dealers conference and customer interaction programs (CIPs), several new products were launched and showcased, which were well received by the dealers and distributors.

JK Tornel has secured 4 Star Rating in British Safety Council Audit".

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 for Q4FY23 and FY23. For Q4FY23, consolidated sales were recorded at Rs.3,645 crore, viz-a-viz Rs.3,320 crore in Q4FY22, registering an increase of 10% on y-o-y basis. Profitability at EBDITA level in Q4FY23 was recorded at Rs.389 crore as against Rs.236 crore in Q4FY22, an increase of 65% on y-o-y basis. Operating profit margins were recorded at 10.7%, margins, an increase by about 110 bps over the previous quarter. Cash profit for the quarter was Rs.263 crore and Profit after tax (PAT) was Rs.112 crore, a 3-fold increase on y-o-y basis.

On full year basis, consolidated sales were up by 22%, stood at Rs.14,681 crore contributed almost equally by volume growth and price increase. Operating profitability (EBIDTA) stood at Rs.1,334 crore, registering an increase of 20% over last year. Overall margins were flat as compared to the corresponding year FY22, however, there has been a steady recovery since third quarter beginning and in fourth quarter margins recovered by 360 bps on y-o-y basis, taking it to level of 10.7%. Though the interest cost has gone up by 9% over last financial year, however efforts are being made to contain the impact of higher interest rate scenario. Profit after tax stood at Rs.264 crore, up by 31% over corresponding period. All the plants are running at higher capacity utilisation level of about 90%. Export sales from India stood at Rs.1787 crore. Earnings per share improved to Rs.10.64 per share from Rs.8.53 per share last year. The Board has recommended a dividend @ 100% (Rs.2 per share having face value of Rs.2 each).

Net debt stood at Rs.4,518 crore as on March 31, 2023, a reduction of Rs.422 crore over previous year led by improved working capital levels and scheduled debt repayments. Leverage ratios improved significantly, Net debt to equity improved to 1.3x in FY23 as against 1.7x in FY22 and Net debt to EBIDTA improved to 3.4x in FY23 as against 4.5x in FY22. The Balance Sheet of the company is healthy with improved financial ratios. We remain committed to deleverage our balance sheet through reduction in long term borrowings and better working capital management going forward as well.

The already announced capacity expansion capex in PCR and TBR tyres are under implementation stage and progressing well.

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. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi sir. A couple of questions from my side. One is, can you talk about the volume growth which we saw in the fourth quarter FY '23 both in India and Mexico?

Management: The volume growth in the domestic market was about 14% on y-o-y basis.

Jinesh Gandhi: 14% in India, that's what you are indicating. Okay. And for Mexico?

Management: Yes, for Mexico it is 14% growth in value terms.

Jinesh Gandhi: Okay. And when we are saying 14% growth in domestic on the volume side, it does mean that exports would have declined quite substantially given that our revenue growth in India operations have been about 9%. So would that be fair assessment?

Management: Yes, quarter 4 exports were down substantially.

Jinesh Gandhi: Okay. And down and quite substantially down because overall revenue growth was just 9% and price increases on a Y-o-Y based basis would have been good double digits.

Management: That's correct Jinesh, your understanding is correct.

Jinesh Gandhi: Okay. Secondly, in this quarter we again saw quite healthy gross margin expansion. So do we expect further benefits of RM cost savings coming in fourth quarter or we are broadly, fourth quarter captures for the savings on natural rubber and synthetic rubber and other commodities?

Management: RM cost has gone down in the fourth quarter and we see that at least for the first half, the RM cost will be subdued. However, we are keeping a close monitoring on the movement of RM and commodity prices. Going forward, we expect raw material prices will be in range bound manner, which would result in margin expansion.

Jinesh Gandhi: Okay. So at least on sequential basis, gross margins would be more or less stable and operating leverage will drive a better margin expansion. That's the way one should look at it, right?

Management: So actually the margin expansion has happened on sequential basis also in Q4 as you would have noticed.

Jinesh Gandhi: Yes, sorry I am referring to first half, FY '24.

Management: Yes, so in FY '24 first half I think further margin expansion definitely can happen provided the raw material price scenario remains stable., which is more likely.

Jinesh Gandhi: Got it. And lastly, can you talk about the capex which we plan to incur in FY '24 both in India and Mexico?

Management: We have already announced our capex plan which is already underway. In PCR, we have announced INR530 crores which is expected to start by Q4FY24 and TBR expansion to the tune of INR.260 crores which is expected to start by Q2FY24. So, total INR790 crores expansion are already underway right now.

Jinesh Gandhi: Right. So how much of this will be cash flow basis invested in FY '24?

Management: Basically, these projects will get completed in this financial year. The part of project cash outflow has happened in FY23 and further outflow will happen in this year and next year, although the projects would get completed in this financial year. So approximately INR500 crores of the total capex outlay would be there in this financial year.

Jinesh Gandhi: Got it. Great, thanks. This is very helpful. I will come back in queue.

Management: Thank you.

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

Ashutosh Tiwari: Yes, hi. Firstly on this volume growth side you mentioned 14% growth in domestic sales in this quarter, Y-o-Y, so this is a tonnage growth or this is what exactly? This is tonnage growth or volume of tyres only?

Management: The domestic growth numbers are in volume terms.

Ashutosh Tiwari: Okay, but see I think overall the sales has gone by like say 9% Y-o-Y. And even if say export would have gone half, then also this number appears very high because there is some price increase as well Y-o-Y. So can you give the arithmetic how much decline happened in export side?

Management: 14% volume growth is on y-o-y basis.

Ashutosh Tiwari: Yes. I am mentioning same only because the revenue growth is 9%. And how much decline happened in export side? And if you can provide maybe overall volume growth at company level in this quarter including exports?

Management: So, overall volume growth was flat.

Ashutosh Tiwari: So, 14% growth, exports are around 16% of our sales right at the India level? And if so, I mean, like say if exports become zero then probably can say 14% growth in domestic. It doesn't match basically the numbers, not matching up.

Management: So, we will clarify to you, we request if you can please send us your specific question. Because I think there is no doubt about what we have just stated on volume growth.

Ashutosh Tiwari: Okay. And secondly on the margin side, if you look at other players generally they reported around 3% minimum increase quarter-on-quarter EBITDA margin level. But we have only reported 1% improvement in margin quarter-on-quarter. So what is the reason why our margin expansion is lesser than the other players in the market?

Management: So, quarter 4, FY23 witnessed a margin recovery by almost 110 basis points over the previous quarter. Actually, there was some usage of high raw material inventory during the quarter. Further, there was a change in the market mix, where contributions from export sales were lower as well. So that resulted in lower margin expansion on q-o-q basis.

Ashutosh Tiwari: How much are export sales in this quarter versus like say Q3 was around 16% this quarter is how much in the mix?

Management: Could you repeat the question please?

Ashutosh Tiwari: So, exports contributed how much to sales in this quarter? It was around 16% in the third quarter.

Management: 13% export sales in this quarter.

Ashutosh Tiwari: Okay. 13% versus 16% in the previous quarter.

Management: That's correct.

Ashutosh Tiwari: Okay. And this so you mentioned that you consumed high cost inventory in this quarter. So how do you look at like say what kind of target margin we have like say as a management what we are looking at company level over the medium term?

Management: We expect, we should get back to the normal long-term average which is about 12%, subject to the stability of the raw material at the current levels.

Ashutosh Tiwari: Okay. With the RM at current levels you can get back to that margin?

Management: Yes.

Ashutosh Tiwari: And lastly can you provide a mix at India operations we have not provided this time in the PPT for the quarter and the year what it was in the only India operations the sales mix?

Management: Sales mix for the quarter 4 is replacement market is around 60%, OEM has gone up to about one-third and the balance is export.

Ashutosh Tiwari: And in the product side like say trucks, truck and bus, PCR and all?

Management: Truck and bus which our major revenue contributor is at about 60%.

Ashutosh Tiwari: 60%. PCR and two-wheeler, three-wheeler?

Management: PCR would be approximately 25% and the balance is non-truck and the two-wheeler.

Ashutosh Tiwari: Okay. Got it. Thank you.

Management: Thank you.

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

Mitul Shah: Thank you for the opportunity, sir. First question is on the Mexico operation. There is revenue growth seems to be close to 30% and just now in initial remark, we highlighted somewhere around 14% for Tornel. And on the same Mexico operation margins are roughly 6.3% which is almost like a eight quarter low despite commodity being much lower and revenue wise it's growing so fast. Any clarifications are here?

Management: Yes, as I said in my opening remarks that there has been resistance particularly from the US market and there have been some stocking of inventory levels with the distributors mainly because of freight rates which have came down drastically and that has put these stockists and dealers and distributors into a bit of a disturbance in a short term and these are getting cleared. So, going forward we are expecting that things will be normalized.

Mitul Shah: Have you seen improvement in April and May already or still more or less situation is slowly improving?

Management: Yes, we are seeing some turnaround and better sales beginning from April '23. There is some improvement in the demand. However, prices are of course still in the export market little under pressure but going forward that will also ease.

Mitul Shah: Sir, in replacement based on the number just highlighted it seems to be there is a 23% kind of a growth happening in the quarter. So what is the outlook here and which segment you think will have a double digit growth in the replacement side in FY '24?

Management Automobile industry is very buoyant. Particularly, the CV and PV segment which is leading the industry. We are witnessing strong momentum in CV on the back of infrastructure pushed by the government including the pick-up in the core industry and with the easing in chip shortage we are seeing good traction in PV space also in FY24.

Further, rising disposable incomes and normal monsoon will improve rural growth. So we are very optimistic about the growth story in the coming years backed up with uptake in the economic activities. So here with urban infrastructure and road construction projects picking up.

Mitul Shah: Okay, sir. Lastly again, one clarification that capex we have indicated that INR550 crores for PCR and around INR200 crores for additional capex, so out of INR750 crores, we are going to spend INR500 crores in FY ’24, so next year it would be just INR200 crores or INR250 crores kind of a capex, is it right understanding?

Management: No. I think I have we have said earlier that there will a total capex of INR790 crores, INR530 crores for the PCR and INR260 crores for TBR project. This capex would be spreaded over a period of two years with implementation from FY23 and ending in FY4. So INR500 crores of the outlay on account of capex will be for this financial year. Some part of the total capex has gone in previous financial year and some will go in the next financial year.

Mitul Shah: So next year it would be much lower right? Like, INR100 crores, INR200 crores…

Management: Yes. Because the projects will get completed in FY ‘24.

Mitul Shah: Yes sir. Thanks and all the best.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Amyn Pirani from JPMorgan. Please go ahead.

Amyn Pirani: Yes. Hi sir. Thanks for the opportunity. Just a clarification on the capex thing. So for this year in terms of cash outflow you are saying around INR500 crores that you will be doing in FY ‘24. And does this include any maintenance capex that you normally do?

Management: No. This would be for expansion projects only. But in addition, there will be some normal / maintenance capex.

Amyn Pirani: Okay. Can you give a range like will it be in the range of INR100 crores to INR150 crores or could it be higher than that?

Management: Broadly in this range only.

Amyn Pirani: Okay given that you said that you are already running at 90% capacity utilization. So can you give us a sense that at least for PCR and TBR after these expansions, how much capacity would increase broadly? And what is the scenario for the other categories because if the growth continues then again your utilization levels will again remain high. So just trying to get some sense here.

Management: PCR capacity would be increased by 35% and TBR capacity would increase by 10%. So that should be good to cater to the demand. Further, when we solidify our position then we will announce further capex going forward.

Amyn Pirani: Okay. So looking at this would it be fair to say that the deleveraging, you know, you did around I think INR400 crores of deleveraging last year. Would it be fair to say that this year the deleveraging could be maybe in line or slightly lower but a larger deleveraging may happen in FY25? Is there a correct way to look at it?

Management: Deleveraging is going to continue even in FY24 and down the line. In fact, we are going to pay about INR450 crores towards the scheduled repayments during this financial year. And of course the new loans will come in to support the expansion plans which we have taken up.

So to that extent the loan amount will go up. But as far as the existing loans are concerned those will get reduced over the next two years by almost about 30%.

Management: In any case as the volumes go up the working capital requirement also goes up. But as Sanjeev has already clarified that a strict control on the working capital is being maintained and as a result of that we have been able to reduce on the both. Term loans are being paid on the due dates and strict control on the working capital so that the overall there was a reduction of about INR400 crores in FY22-23.

Management: And just to further add to this point in fact in the last couple of years because the input costs have gone up by almost about 50% and the volumes have also gone up. So, the operations which were there about a year ago in FY22 which was there at about INR12,000 crores and in FY '23 it was about INR15,000 crores we have been able to control the working capital levels.

We will continue to be focusing on that and we will maintain the levels as we have today in terms of the working capital and that's why our net debt to EBITDA and net debt to equity ratios the leverage ratios have improved significantly during this financial year and this should improve further going down the line.

Moderator: Thank you. The next question is from the line of Bharat Bhagnani from Living Root Capital. Please go ahead.

Bharat Bhagnani: Hi good afternoon team. You know my question is on the margins the operating margin that we are at. We finished the year at about 9%. Now given the raw material scenario in the second half of this financial year which has just gone by as investors we were expecting for better operating margins compared to even some of your closest competitors within India looking at their only India business. They have also got like better operating margins. So which brings me to the question that are we trying to chase sales at any cost? Are we not focused on maintaining margins while growing?

Management: This question was also answered sometime back that we had an improvement of around 110 basis points as compared to the previous quarter and had some high cost raw material from the previous quarter. But now that is behind us. That is well consumed and also another aspect was the lower export sales compared to quarter 3.

Bharat Bhagnani: Yes I heard the question sir. and I have been there on the call. Now my question is if we are having some high cost raw materials are we pre-buying a lot of raw materials at that point because how are the other companies able to secure a better margin when they are operating in the same field? Sir I think there is almost a 20% difference in absolute values.

Management: This is also a function as Mr. Kathuria was explaining for the product mix and also the market segment mix. We are not for that matter chasing only the volumes but of course we are focusing on the margin improvement as well and that is how in the last quarter on sequential basis there has been some increase in margin. But the fact is that we are also focusing on the margin side as well.

Management: We are also focusing also on our product mix in terms of premiumization of our product in different category be it passenger radials, commercial radials and others. As you heard in my speech that we have also launched ultra-high-performance tyre - Levitas Ultra towards our journey of premiumization.

Bharat Bhagnani: Mr. Singhania, we have been working on improving our product mix ratio for a while now because of our Mysore facility where we do the R&D and we have introduced some good products like the JUH5 etc. in the past also. So it was expected that because of introduction of those products we will be able to capitalise right now when the CV cycle is on an uptrend and 60% of our sales coming from the CV sales.

There was an expectation that we will be able to capitalise more but that somewhere is not happening. We are not able to charge a premium for our products which we have introduced which have been well accepted by the market. So is it that we are selling a lot of B2B to transport companies directly for attaining the volumes? That's my primary, that's just what I am trying to understand on the sales mix that's happening.

Management: We need to also understand is that our total revenues that comes from the truck and bus side is higher than the others. So there the segment wise play out is definitely going to be different and that is why our MD also emphasised that we are working on increasing the revenues from the segments where the margins are traditionally higher.

So we are working on that and we have made good progress on that. In fact if, I were to just give you one number is that in our passenger car while the overall growth we talked about 14% but in passenger car if you look at passenger car separately the growth was almost at a level of 17%-18%.

So that indicates that we are trying to increase the overall revenue mix and as an overall category also the revenue mix in passenger car has gone up by a couple of percentages. So this effort will continue and thereby I think so we will be able to get a richer product mix which will help the margins to get better.

Bharat Bhagnani: So this is a concern for you also that you want to get the margins better going ahead?

Management: Yes.

Bharat Bhagnani: One more question for Sanjeevji. Sanjeevji your tax rate on an overall basis continues to be around 35%-36%. Are we not migrating to the new tax offered by the government of 25%-26%? We are not able to do that?

Management: See there is some outstanding MAT credit in JK Tyre. So once that is absorbed then of course we will move into the new regime.

Bharat Bhagnani: That should be absorbed by what?

Management: This we have evaluated. Which one is better for us and we are waiting for that to be absorbed first or let's say utilized first and then we will move to the new category.

Bharat Bhagnani: Is there a sort of timeline or you can share?

Management: I think it's a matter of only about a year or so.

Bharat Bhagnani: One year?

Management: Yes.

Moderator: Thank you. The next question is from the line of Deepak Jain from Enam AMC. Please go ahead.

Deepak Jain: Hello sir, again I have a question on the margin side. You said that you are focusing on premiumization and earlier there was a comment that probably the product mix may have deteriorated. So can you just clarify that aspect?

Management: First of all we would like to clarify that there has been no deterioration. In fact, there has been a sequential improvement and what we said that we are further trying to make our product mix superior and efforts are underway towards passenger car radial premiumization, where we are going for the higher rim sizes including the launch of Levitas Ultra which is in the premium segment for luxury cars. We are also looking at the 16 inch and above sizes in the passenger car both with the OEMs as well as in the replacement market. So that is our effort towards getting the product mix even better. So there is no deterioration just to clarify.

Deepak Jain: Sir you talked about margin getting improved to 11%-12%. From which quarter can we expect that?

Management: This is a continuous process. So, as we said that for the entire financial year we are expecting margins to improve. The way we are seeing actually the margins in the fourth quarter it should further improve for the reasons stated earlier. If raw material price scenario continues to remain in a stable range then of course we will see the benefits starting from Q1 onwards.

Deepak Jain: Sir one last question. Given the moderation in the cost do we see some price reduction particularly in the OEM category which you may have to pass on?

Management: See this is something which we will have to see how it plays out. The only thing which I can comment right now is that wherever there is an indexation that definitely we will have to respond accordingly. But other hand, we also need to keep in mind that when the raw material costs were going up the complete recovery had not happened.

Moderator: Thank you. The next question is from the line of Shubham Agarwal from Aequitas Investment Consultancy Private Limited. Please go ahead.

Shubham Agarwal: Good afternoon everyone and thank you for the opportunity. So my questions are around the P&L. So if we see the employee expenses since June it has been increasing drastically and almost at a similar level of gross sales we have seen a decent increase in employee expenses. So I wanted to understand if there is any specific reason why this has happened and how do we see this going forward?

Management: This year, we had finalised long-term agreements in few of our plants. So that is valid for more than 3 to 4 years post finalisation. So definitely it will get averaged out over the next 3 years time. Further, the top line will also get robust in FY24 plus we are also working on lot of digitalization measures which should also help us in this regard.

Shubham Agarwal: Okay, so we can consider a low single digit kind of growth for FY24 in employee costs.

Management: Correct.

Shubham Agarwal: Yes. Okay. And then coming to the interest expenses given that we are almost at the side end of the rising interest rate scenario and also our overall debt level is going down. Do we expect this to peak out at INR125 crores per quarter?

Management: We believe this has peaked out. You are right and going forward as we may expect some reduction probably.

Shubham Agarwal: Got it. And on the Cavendish side so we hold almost 80% of the company. Do we have any plans of acquiring it 100%? And if so by when?

Management: We are likely to remain at the same level for the time being and also to clarify that 100% of the company is owned in the group only and more than 80% roughly is held by JK Tyre.

Shubham Agarwal: Okay. So no plans of increasing. Got it. And lastly I wanted to understand what will be our strategy beyond FY24 because in terms of expansion I think the volume growth is only around 10% to 15%. So do we have any scope of brownfield expansion beyond FY '24 and how are we planning to grow?

Management: As we said that our capacities will come in place in the truck bus and passenger radial segment by this year end and we will start utilizing that capacity. Going forward, we will assess based on the demand situation, our plants has scope of a brownfield expansion, we will announce when we decide on the next capex cycle.

Shubham Agarwal: So just a clarification on this. So earlier in the call you mentioned that PCR would increase by 35% right after this expansion. But my earlier understanding was that this 35% increase also includes the de-bottlenecking which was done last year.

Management: That's correct. You are right. So in fact I wanted to clarify that 35% includes partly which is almost about 50% has already been completed through de-bottlenecking and 50% of that which is about 17% that is under implementation at the moment.

Shubham Agarwal: Got it. So 10% to 12% in TBR and almost 17% in PCR is what we are expecting.

Management: That's correct. Absolutely.

Shubham Agarwal: And in one of the news articles it was mentioned that in FY25, JK Tyre may see an INR900 crores expansion in PCR. So is there any validity to this news?

Management: So, this is INR1,100 crores of total expansion, which we had talked about at some point in time in FY22 and then because the de-bottlenecking project of rupees INR305 crores to INR310 crores got completed already and the balance INR790 crores is undergoing. So this totalled up to INR1,100 crores.

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

Amit Aggarwal: Good morning sir. Congratulations for good set of numbers. My question was regarding IFC equity raise. Sir, companies like ours raising INR240 crores is such a low valuation, so what is the thought process of the management regarding the same?

Management: This is based on the negotiation and then this fair value arrived at through a valuation report. So, the negotiation happened at the time when the share price was hovering at around the same level. So, I do not know what is your way of calculation of low or high.

Amit Aggarwal: Because compared to our valuation otherwise it is also very low. I don't think with this brand like ours we should remain at this level for too long.

Management: I don't think there will be any possible comment on this the deal price which has already happened. So it is very difficult to comment at this point in time.

Amit Aggarwal: And do we expect any further division of equity in near future?

Management: So again we keep exploring the possibilities but as of now we can't comment.

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

Nirav Seksaria: Yes, sir. I am asking what is the holding period of raw material?

Management: So, for imports normally it takes two months to arrive from the date of order. And in the case of domestic it is about three weeks.

Nirav Seksaria: Just to repeat on the margin side we expect the margin to peak at around 11%-12%.

Management: We have already clarified that considering the stable raw material prices I think we should improve upon the margins. But at what level it will peak is again difficult to say because we have the precedence of increasing the margins to a level of even 15%-17% in FY21. So, this all depend upon the raw material price scenario.

Nirav Seksaria: Could you mention the input prices that you saw in the Q4 for synthetic rubber?

Management: So you are asking for breaking up of the prices you are saying?

Nirav Seksaria: Yes sir.

Management: So not readily available but yes we can discuss maybe in the next conference call.

Moderator: The next question is from the line of Raghavendra Goyal from ICICI Securities. Please go ahead. Mr. Raghavendra Goyal your line has been unmuted. Please go ahead with your question.

Raghavendra Goyal: Can you sir please provide me revenue numbers for the current quarter and corresponding margins of cavendish?

Management: So for Cavendish for Q4 the turnover was about INR770 crores and the EBITDA margins were at about 11.5%.

Raghavendra Goyal: And what would be the utilization level at Cavendish for the Q4?

Management: 85%.

Raghavendra Goyal: 85%. Ok.

Moderator: Thank you. The next question is from the line of Naitik Mohata from Sequent Investments. Please go ahead.

Naitik Mohata: Thank you for the opportunity. Sir if you could just clear the picture around debt or rather on our deleveraging plans. Because yesterday Anuj sir in a CNBC interview said that we plan to bring the debt down from INR4,500 crores levels to INR3,500 crores levels. And now you are saying that we pay off some old debts but take on new ones seeing our capex plans. So what is the deleveraging policy and how the picture can be painted for 2024? And secondly will this debt reduction be facilitated all from our cash flows or do we plan to raise some kind of funds going forward?

Management: **As** I said earlier that the total debt at company level at consolidated level is about INR4,500 crores. And we have the scheduled repayments in the next two financial years of almost about INR900 crores. The total long-term debt will go down by about 30%. So, assuming that we will be able to maintain the working capital at the same level and even if there is some addition of new loans for the expansion project. There will be a complete reduction of the long term and the net debt shall reduce from 4,500 level to 3,500 level. So that is what Mr. Kathuria said.

Naitik Mohata: And secondly this will all be from our cash flows or do we plan to raise some funds?

Management: No this will be from the internal accruals and our own cash flows.

Naitik Mohata: Okay. Thank you sir.

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

Mitul Shah: Sir thank you for the follow up opportunity. Sir again question on Mexico side as we are hinting on the tough situation in America. So do we expect double digit growth in volume for value terms? So what is the outlook here for next one to two years?

Management: Well the outlook is definitely better as I said that we are expecting that the US market is definitely going to revive and therefore we are targeting double digit growth for FY24.

Mitul Shah: What is the industry situation sir as you highlighted there is already like a destocking and overstocking in the system inventory is high. So what are those challenges?

Management: As, I said that process has certainly affected performance to an extent. But the performance of JK Tornel in the last two years has been very good and hopefully now this process of destocking should be over somewhere in the middle of Q1 of financial year 24.

Mitul Shah: Okay sir thanks.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Singhania from JK Tyre for closing comments.

Management: Thank you very much for being with us today and we hope we have answered your question to your satisfaction. On behalf of JK Tyre I would once again like to thank you.

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