JK Tyre Q4 F16 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the JK Tyres Q4 FY 2016 Earnings Conference Call hosted by SBICAP Securities Limited. 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. Mahantesh Sabarad from SBICAP Securities. Thank you and over to you Sir!

Mahantesh Sabarad: Good morning everyone thanks for joining in for this conference call by JK Tyre Post their results Q4. We have the senior management team of JK Tyre on the call led by their President of International Operations, Mr. Bajoria. We also have Mr. A.K. Kinra, Mr. Vivek Kamra, Mr. Vikram Malhotra and Mr. Sanjiv Saxena and Mr. Kamal Manik in the call to take around your queries. Can I now request Mr. Kinra to proceed ahead with the call? Over to you Sir!

A.K. Kinra: This is Kinra here. First of all thank you very much for joining in this call. Now before we take on any question, I am requesting Mr. Kamra to give a brief of the financial performance for the year 2015-2016. Mr. Kamra.

Vivek Kamra: Good morning everybody. Once again on behalf of JK Tyres thank you for us this morning. Of course I will start off on the positive note. You may have seen our results. This year JK Tyres has enjoyed highest ever profitability in the last several years. This profitability comes at a back of relatively flat dull year with lots of challenges in the market place and therefore that is how it makes it even more exciting albeit at the back of some headwinds in terms of commodity prices.

I would like to touch up on a few key achievements which we feel are noteworthy from both an operations as well as an investor's point of view. We had started the expansion project in Chennai which is one of the most state-of-the-art plants in India today to make radial tyres, both truck as well as PCR. This expansion project was to the tune of 1430 Crores which has been completed taking our TBR that is truck radial capacity as well as passenger car up. We now have passenger radial capacity of almost 10 million tyres per annum and TBR capacity at Chennai specifically at 12 lakh tyres per annum.

We also have our TBR capacity in erstwhile plant in Mysore taking our overall TBR capacity to close to 35 lakh tyres per annum. So this brings us to the one of the largest players in the state in trucks.

The year saw lots of interesting initiatives internally and I would like to spend two, three minutes on that. JK embarked on a countrywide supply chain revamp. We have adopted both IT as well as the latest thinking in supply chain to deliver tyres to right up to the doorstep of our key consumers both fleets as well as dealerships across the country. This network of 4000 dealers and approximately 1000 direct fleets now is serviced in almost real time across the country. This has also been enabled by state-of-the-art mobility solutions for our sales force as well as the back-end IT for our supply chain team to make it far more responsive.

This helps us maintain our number one position in truck bus radials this year both from OE plus replacement market albeit the challenges that we faced from Chinese imports. JK Tyres also in this last year took on though we saw some good tailwinds from commodity prices we took on a very large project to cut our cost across the board both in terms of manpower as well as in terms of material cost reduction across the board and a large percentage of a profit that we have shown this year also comes from the benefits from these, in addition to a court a continuously changing mix from buy tyres to radial tyres and we have came substantially even from a slightly larger volume as well as mixed gain.

Of course when you talk about volumes you may if you look at the revenue numbers which may not show growth but that is because it came at a back of a 6% drop in prices in the market following the commodity price drops, which we have passed on to the consumer, some of this of course came in towards the second half of the year where some of the price drops go passed on to customers as the buying material started coming into our inventory. If you see in the year gone by JK Tyres also had a record number of new products developed.

We developed several truck radial products, passenger car radial products both in our India operations and in our Mexico operations, resulting in new launches which you may have also seen in the television and over a year last year and we continue to bring those new products into the market. We have also taken a huge thrust to develop product for the export markets in the coming years.

The export markets obviously saw some resistance, some headwinds. China played a huge role in the world market, depressed prices. We also saw some key economies where we were present take a little bit of a beating particularly South America and the Middle-East particularly in the middle of the year, which affected exports to an extent but the company is recovering. We are back on the export train again early from this quarter and clocking back to our earlier numbers.

In terms of final profitability though you have the numbers with you this resulted in our EBITDA crossing 1000 Crores, a 31% increase on a standalone basis and an EBITDA of

1158 Crores on a consolidated basis which is also up 22% and a profit after tax up 58% on a standalone basis and 41% on a consolidated basis.

We ended the year on a very bright note. We walked into the ex-Birla Tyre Plant in Laksar on 15th of April after completing the transaction. This plant brings huge synergies we feel in the JK basket. However now capacity of bringing in two, three wheeler takes JK into a new orbit I would say. It gives us the ability to go in across all segments to our channel partners. It will drive profitability and it will also drive reach in the coming months to come. Two, three wheelers capacity at Laksar is 6 lakh tyres per month, which is relatively large capacity coming in straight to 67% of a market from year one itself.

Some of the earlier players have walked out of this market, so it does give us almost a ready market to service. Truck radial capacity at Laksar gets added to our capacity. We would have had to invest in truck radials if not for this acquisition and like I mentioned again this will support JK being the first and hopefully continue to be the largest truck radial supplier in this country.

This will briefly about our highlight for last year. Of course one critical icing on the cake is that this year we have declared a dividend on equity shares at 125% which is up 50% from last year's dividend 75%.

A.K. Kinra: I think Mr. Kamra has given the brief about the yearly performance and he is also talked about the acquisition of tremendous industry. Now we will take the questions from one-by-one.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: Congrats Sir for decent set of number. Thanks for taking the questions. Few questions, what was the volume growth for standalone business this quarter and for the full year? We know the revenue growth, but volume growth sir for the quarter and the year?

A.K. Kinra: For the year we have sold 103 lakh tyres at volume growth of about a little less than 2%.

Basudev Banerjee: For the quarter Sir?

A.K. Kinra: For the quarter the volume growth was more than 6.5%.

Basudev Banerjee: Sir what is your outlook on Tornel demand down the line as you have been ramping up the passenger car capacity out there?

A.K. Kinra: The domestic demand of Tornel products is picking up and that is particularly due to the larger range that we have introduced with the recent expansions where we have taken the capacity from something like 10000 tonnes per day to 15000 tonnes per day and that has enabled us to offer a much wider basket of the various passenger car radials and light truck radials. In addition we have also now started exporting our car radials from Tornel into North America. Up till now we were only handling South America the Latin American markets like Brazil, like Venezuela, like Columbia, like Ecuador, Cuba so in addition to all these we have now added North America in a very major way and we are also opening an office in North America which will help us to push our sales, the additional sales which has got to be generated into North America and then of course the local market is fully being service from our three manufacturing plants in Mexico so that is where we are.

Basudev Banerjee: Secondly Sir what is your outlook on your raw material basket overall which includes the natural rubber and crude derivatives from next two quarter perspective on the back of recent surge in the prices?

Vivek Kamra: We have seen commodity prices across all industries go up whether it is steel, it is rubber, and it is crude. Rubber in particular is affected by wintering in this quarter most for South East Asian producing nations go into wintering therefore there is a natural reduction in supply and a tendency to increase prices. We also saw some collective action between Vietnam, Malaysia and Thailand in the area of controlling actually rubber movement out of those countries. Thailand did not follow suite but Indonesia restricted flow of rubber out. We have seen prices go up by 30%, 35% as you notice but we do not think that will significantly got further in fact once we are able to tap rubber and the monsoons come in the tappers will start increasing the volume they get from the rubber plantations and we expect these prices to flatten out or come downwards in the coming months they will not go to the lowers they went to they will not go to the 90’s and 100’s but yes we believe we will come down fraction as we go forward into the years that is an outlook and that is an internal JK reading but commodity markets I am afraid there are better people to answer that question.

Basudev Banerjee: I understood, but if I see on a sequential basis raw mat to sales is already higher by 200 BPS and bulk of the impact of recent surge in raw mat prices though on a temporary basis ideally should come in Q1 or Q2 so as per your internal calculation how to look at the overall raw mat basket combined moving up compared to March quarter at least for Q1 so that one can understand the state of margin in coming two quarters especially your pricing power in the industry is not that great NPA set is only cutting prices instead of increasing prices?

Vivek Kamra: Because of the mix you will have to look at from JK’s perspective you will have to look at also the shift in mix and volume in the coming few months. So yes there will be, I am not seeing this quarter we will have to absorb the entire volume but our passenger car radial mix is growing so is TBR in our mix so there is a mix and volume effect which will also kick in whereas yes in the coming quarter this price increase will I think we will be as we will take in the entire 25% to 30% raw material price.

A.K. Kinra: In addition I just want to add you are right to the extent that there has been some northward movement in natural rubber prices, but raw material is not only natural rubber.

Basudev Banerjee: Yes, so raw mat basket overall as such.

Arun Kumar Bajoria: Yes exactly so that is what I am trying to say that overall raw material which include steel, which includes our chemical which are related to crude oil and there are so many other inputs and therefore we are watching and I think things will balance out at the end of the day these are all spurts and as my colleague Mr. Kamra just said that you see the tapping will start and obviously availability will go up and therefore the prices will tend to again balance out and take a reasonable shape wherever it may not be absolutely the same but yes.

A.K. Kinra: Just to add, by value is almost constitute marked 35% of the total cost of the raw material.

Arun Kumar Bajoria: That is what I am saying.

Basudev Banerjee: Last question, Sir as this is your first formal call after the deal for Birla Tyres and as the deal got closed in mid of April so your annual balance sheet is not reflecting all those numbers so could you throw some light on the deal structure your turnaround strategy?

Arun Kumar Bajoria: Look first of all as you just heard Mr. Kamra say that we have not taken any debt on the main company that the JK Tyre has not assumed any debt obligation of CIL that is one and secondly we are entering into a very fast moving market of two, three wheelers which in fact up till now JK Tyre was lacking and the biggest advantage that we can see is that we have our own manufacturing facility unlike some of the other players in the market so you see this 600000 two, three wheeler tyres every month being produced from a most modern manufacturing facility is a great plus, as far as JK Tyre is concerned. Secondly the expansion of truck bus radial where we have got almost 1.2 million readymade tyres available from Birla Tyres is also a big plus because now our total capacity of truck bus radial in addition to our latest modern plant at Chennai and Vikrant comes to almost 35 lakh tyres 3.5 million. We are today the market leader in truck bus radials and due to this additional capacity that is available to us we will be able to maintain this leadership in times to come given the rate at which the truck bus radial market is growing because as you know that the radialisation has already reached almost 44%.

A.K. Kinra: That from January 2015 we were ourselves having a plan to put in an expansion of additional 1 million TBR. We were almost ready with our plants and we have started working out the details. When this opportunity came so we thought that this opportunity is that we will have a ready capacity available and that is what exactly what has happened that as of March 2015 and when we took about the fiscal provision of the plant we have 7.5 lakh TBR capacities available in addition to what Mr. Bajoria has just said about the two, three wheeler capacity of tyres.

Basudev Banerjee: The 7.5 lakhs plus 4.5 lakhs is also you shared and all are ready.

A.K. Kinra: In addition to that that another 0.5 million TBR the additionally coupon which is required the Birla Tyre had already purchased this it is lying in the premises of Cavendish and we will be ready, it is lying in crates we will be ready to install it as soon as we are able to absorb the earlier capacity of 7.5 lakhs so what I am going to say is that this additional capacity of 1.2 to 1.25 million TBR is available to us the right upfront.

Arun Kumar Bajoria: The last answer to your question was the financing of 2170 the deal structure so the equity portion is 700 Crores and the debt is 1470 Crores so that is the total of 2170.

Basudev Banerjee: Sir out of this 700 Crores equity as per media report is suggesting 650 Crores is already written down?

Arun Kumar Bajoria: 650 Crores is written down though in fact it said it is not like that, no I think that is a misreporting completely.

A.K. Kinra: Not at all that is not a true fact; that is not true.

Basudev Banerjee: So that will be great if you clarify that how much is in your books, how much debt is in for about separate group entity so that will be great if you can?

A.K. Kinra: Let me tell you what you are talking about is the capital of this company Cavendish is 700 Crores as Mr. Bajoria has just told you. Now what we thought that this 700 Crores will be unserviceable so even prior to the takeover we moved an application to the court of bifurcating this capital of 700 into share capital of 50 Crores and a share premium of 650 Crores probably you must be referring to this so this company's networth will remain 700 Crores only and the share capital of 50 Crores will become a very easily serviceable capital that is the scheme of lastly behind it will be. Secondly what I am going to say is also that whatever financing has been raised in CIL Cavendish it has been raised on the strength of CIL's balance sheet, so that way JK Tyres has not assumed any that obligation of the CIL. It is on a standalone basis and we are very confident that we will be able to turn it around very quickly and this company will be able to stand on its own feet, will generate its own cash flows in due course of time to service the debt that it has taken.

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

Ashutosh Tiwari: Sir my first question is you said that your TBR capacity is 30.5 million tyres per year so does that include this Laksar capacity also or it is separate?

Arun Kumar Bajoria: Yes it includes Laksar.

Ashutosh Tiwari: So Laksar is around 1.2 you said right.

Arun Kumar Bajoria: Right.

Ashutosh Tiwari: Secondly what is the PCR capacity overall?

Arun Kumar Bajoria: A little less than 10 million tyres.

Ashutosh Tiwari: And what are truck bus biases?

Arun Kumar Bajoria: Truck bus bias is still today approximately 45 lakhs sorry India will be about 4 million 40 lakhs.

Ashutosh Tiwari: What is the utilization level of this bias capacity?

Arun Kumar Bajoria: Last year overall utilization of our capacity is across all plants about 75% to 80%.

Ashutosh Tiwari: Will it be fair to assume that the truck bus radial will be on the higher side?

Arun Kumar Bajoria: Yes of course.

Ashutosh Tiwari: Sir you had in FY2015 our radial to bias mix was 50 to 48 what was the number for this year?

Arun Kumar Bajoria: 58 radial almost 60% radial capacity.

Ashutosh Tiwari: Was the bias volume declined in the current year end FY2016 versus FY2015?

Arun Kumar Bajoria: Yes.

Ashutosh Tiwari: Definitely going ahead probably TBR is as you mentioned that TBR will be gaining share of the overall truck market in that case what do you plan to use which will be of large capacity?

Vivek Kamra: We have continuously right sizing our bias capacity on the fly, so month-on-month we are right sizing our bias capacities as we go along, however we have also got critical new market to sell bias tyres in the export market as well as in the local markets we are opening up new opportunities in trailer manufacturing and other utilization in bias capacity, so in 2016-2017 we also see a bit of increase in bias this year over last year and that is because the construction goes up the usage of bias tyres in the tipper segment and in the construction segment goes up along with the industrial output. We are also looking at growth in both industrial and farm tyres because as you all are seeing farm is looking hopeful in the coming years so farm tyres will pickup, industrial tyres will pickup in bias this year and if all goes well and all the commodity prices sustain then a little bit of recovery we will also see some improvement in the mining tyres, which are still today's bias. So we see a slight pickup actually in bias capacity and utilization in the coming year, which maybe contrary to what your thinking but this year we are expecting a bit of fillip in the bias capacity utilization and in any case if they raisin we are continuously rationalizing and managing right sizing our bias capacity as we go along if we are at 60% this year in terms of overall capacity itself so that gives you some indication of how we have moved.

Ashutosh Tiwari: Sir in Laksar plant what is the capacity for bias tyres?

Arun Kumar Bajoria: It is nearly 1.7 million tyres.

Ashutosh Tiwari: This for 40 lakhs includes that or that is separate that?

Arun Kumar Bajoria: It includes that.

Ashutosh Tiwari: Sir on strategy for two wheelers, two wheeler tyres when are we going to launch it or already we are selling in the market?

Arun Kumar Bajoria: We have just started. We have already started dispatches it into the market. The sales have already begun. You will be happy to know that within the first four days of our taking over we started production and we have started dispatches and its already on the whole process is on.

Ashutosh Tiwari: Sir my last question is what is your take on Indian dumping duty by what timeframe we expect it to come and what is the uptake will be come?

Arun Kumar Bajoria: The government has started initiated the process and therefore yours and mine or anybody's guess how long it will take but at least government has recognized the need and therefore let us hope for the best.

Ashutosh Tiwari: Normally how much it takes one the initiatives and implication.

Arun Kumar Bajoria: Very difficult to say, about six months could be earlier who knows.

Ashutosh Tiwari: Thank you so much.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Just wanted to know out of this total 2170 Crores what would be the actual tax outflow going from JK Tyres and what will be like the percentage stake which JK Tyres will hold in Cavendish and will it be subsidiary of JK Tyre or it will be like a group company how will that structure pan out?

Arun Kumar Bajoria: You see total 2170 Crores JV as which majority and already said the capital is 700 Crores and the rest came in debt on the CIS balance sheet out of this 700 Crores JK Tyre has put in just about 450 Crores only and the rest has been put in by the group companies and it is the subsidiary of JK Tyres.

Anita Rangan: JK will hold what percentage stake here.

Arun Kumar Bajoria: 64%, 450 out of 10, 100 is going to be the equity contribution by JK Tyres.

Anita Rangan: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Just for that Cavendish the capacity as you highlighted for the bus bias is 1.7 million tyres for annum right?

Arun Kumar Bajoria: Yes.

Bharat Gianani: The truck radial would be 1.2 million and 6 lakhs per month would be the capacity for two, three wheelers. Sir just to understand currently the capacity utilizations in the respective segments for Cavendish would be how much for each other segments we can have it?

Arun Kumar Bajoria: We have just mentioned to you that the capacity utilization starting from truck bus radial will be about 85% to 90% two, three wheeler maybe even more than 90% and the truck bias which includes LCV bias which includes the farm we are trying to see how much we can take at up to but I think it will be to start with about 40%.

Bharat Gianani: This is for the Cavendish brand that you added.

Arun Kumar Bajoria: Depends on how the market evolves and the supplies but I can tell you that these are just initial estimates from please appreciate that it is barely one month since we have worked into this Cavendish industry in Laksar plant. We took management control on the 15th of April and are today talking on the 16th or 17th of May so therefore you have to give us little more time in terms of our fine-tuning all the capacity utilizations and the production planning and the product mix etc.

Bharat Gianani: Sir by what timeframe do you plan to turnaround the operations and then they be a profitable kind of a level what is your internal target in terms of that just want to know that?

Arun Kumar Bajoria: We have said in the beginning that we would like to turnaround in the shortest possible time and the only thing I want to bring in here for the comfort of all our respected investors that we have had a fantastic track record when we took over Vikrant Tyres. We turned it around in less than 11 months then again when we went to Mexico we turned is around in less than a year and I would say that have truck in our track record and we shall show similar performance here to that is what we are aiming up.

Vivek Kamra: Bharat, I can only tap to what Bajoria is saying that we got the competition approval in February and the actual takeover to place on the 15th so we had the benefit of about seven weeks which was available to us for planning. Lot of planning has already gone into this as he have said we are now all the product mix how much we are going to produce, where we are going to sell about the branding position and all that. I think we will certainly put in our best efforts to see turnaround as already said that we have a very good track record whether it was Vikrant Tyres or it as JK Tornel both these units were turned around in less than one year, so I keep my fingers crossed. I am sure we will be able to repeal the turnaround story in Cavendish as well.

Bharat Gianani: Just last question that deal finance that you said that equity is 700 Crores and debt 1470 Crores so that out of the 1470 Crores debt which is there and how much would be reflected in JK Tyres books?

Vivek Kamra: I have already said that the JK Tyre has not taken on any that obligation. The entire 1470 Crores, which has been raised on the strength of the CILs balance sheet. We have just start to assume any obligation and why we did so because we were very confident that this unit will be able to realize enough cash flows in the possible time to service the debt obligations we are very confident about it, just for your information we may also negotiate with the lender fairly decent maturity periods and with a very good moratorium so that this unit is able to generate enough cash flow and when the servicing of that debt starts, I think we are absolutely on the right track. As I said we have done a lot of a careful planning in this in terms of turnaround strategy and also in terms of cash flow planning despite the fact but this was only a facility sale yes it was structured by way of an entity sale when we took over the share capital but the fact was that we just brought the facility only they was no working capital with the facility so right on the day one we have already arranged a working capital with the banks so whole ass already what I am going to say is that as Mr. Bajoria said that within four days of takeover the production started and production and then the dispatches and the billing has started I think a whole lot of planning has gone into this and we are very confident that we will be able to turn it around in a very short period of time.

Arun Kumar Bajoria: I wish to add for further comfort all of all you gentlemen and ladies, that Cavendish Industries still is enjoying benefits because of its location in Uttarakhand and therefore we are not required to pay excise duty and sales tax for a number of few years it is left for excise duty only excise duty so we for a few years even the truck bias section and then little more year for truck radial and little more years to that two, three wheelers because as the plant came in it was all ten year period exemption of excise duty so that is a very big advantage that Cavendish Industry will have in terms of the profitability and the payback this excise duty which will go on 2019, 2020 so we still have fairly decent period of about three four years available with us.

Bharat Gianani: Sir just last one clarification at since now Cavendish has 64% subsidiary of JK Tyres so that 1470 Crores debt which is there in the balance sheet it will be proportionately reflected in our books as well so is that understanding correct?

Arun Kumar Bajoria: Which books? We just informed you that there is no debt on JK Tyres book the entire debt of 1470 has been taken on CIL.

A. K. Kinra: Let me clarify to you that the news received JK Tyres account you do not capture this debt because this debt is directly sitting in the books of CIL even if it is subsidiary it will directly reflect in the books of CIL on a standalone basis.

Arun Kumar Bajoria: Let me into clarify. See it is only in terms of consolidation of accounts that this would come in as a way debt for consolidated debt but in terms of servicing it is a standalone basis CIL this service and standalone basis JK Tyres will service on that. There is I think as I have said earlier there is absolutely no obligation assumed by JK Tyres for servicing the debt of the CIL.

Bharat Gianani: But that point I understood but just from a consolidation point of view since so that way I was would like to think of it.

Arun Kumar Bajoria: Yes it is consolidation price and it is only for accounting purposes.

Bharat Gianani: Than you so much all the best Sir.

Moderator: Thank you. The next question is from the line of Sandeep Patel from Hornbill Capital Advisors. Please go ahead.

Sandeep Patel: Thank you for taking my question. Just had a little bit of query on imports from China and other countries how does that impact your product range and secondly do you see a near-term price hike possibility since rubber prices has gone up?

Arun Kumar Bajoria: Chinese imports have grown substantially particularly in the aftermarket for truck radial tyres so they have grown in fact that is why they have started initiated the process of antidumping which you maybe aware.

Sandeep Patel: So has that growth continued in this current quarter Sir?

Arun Kumar Bajoria: It has not grown further it has flattened out in the last two quarters.

Sandeep Patel: What would be the reason that you ascribe to this flattening out Sir?

Arun Kumar Bajoria: I guess the market also reaches a balance in what it can take and what the use because all these tyres go in specific segments so Chinese Tyres for example has no warranty that they are sold on cash. They are not sold to relationship customers. They are sold as transaction sales and they have reached well there is a lot of users have used them and then gone back either in some cases bias tyres and radial tyres so its flattened out to quite an extent and once I think the duty investigation starts I sense there may be further minor reductions particularly because all the practices of import start getting served under a scanner. So if there is any circumvention of any duties or the vehicles system those start getting looked at closely by the authorities so we will see some amount of skepticism in the import as well as dealers will start taking new positions because if they are too dependent on tyres and it does come into the dumping zone they might get affected adversely particularly if there are retrospective duties that are recommended by the anti-dumping commission. We do not see huge increases for sure. Will rubber prices be passed on? To an extent, yes they will be as we see when the rubber prices do go up if they do go up a little more we have already seen a couple of announcements by couple of tyre companies in certain segments where tyre prices have been pushed up so we will hope to see some amount of this going back to markets. We are not seeing that too much now but the demand in summer months is high we would not see any price drop for sure in this quarter in the particularly in the freight segments.

Sandeep Patel: Sir which segments have the price hikes got initiated?

Arun Kumar Bajoria: Freight.

Sandeep Patel: In freight okay it is already started in freight?

Arun Kumar Bajoria: We have got a couple of indications of some companies that have asked for price hike.

Sandeep Patel: Since the raw material price the whole basket seems to have moved with crude also moving up what is the level of price hike that will be needed to keep our profits on a growth part or at least to keep absolute profits same as last year?

Arun Kumar Bajoria: The raw material prices have a lag effect as well because you have work in progress in the system. We have also made as we mentioned earlier in the call our mix and volume will change in the coming months given the higher profitability as you may be aware of radial tyres like of these two see even if we do not see any major further increases in raw material we do see we are probably able to sustain margin in the coming year that is our goal but commodity prices Sandeep again we cannot tell.

Sandeep Patel: On the margin front one last question we have seen historically margins were pretty low for the sector and largely impacted by rubber price will that be a case going forward what are sustainable margins according to you and has the competitive scenario changed in any manner that higher margins could be possible now?

Vivek Kamra: Two things one is from a commodity cycle perspective though there is a marginal upturn it is I feel it is temporary and to the extent that has already happened so we do not see the rubber price is going to 220, 230 levels which is the years in which this industry had lower profitability number one. Number two from JK Tyres perspective itself there are a lot of there is huge initiatives that we have taken and we have started bridging our profitability ratios better from the various initiatives like I mentioned to you earlier cost, efficiency, mix so mix and production efficiencies will kick in giving us a better margins. I am not very sure what percentage it will be because then if the denominator keep shifting in terms of the price of rubber and that percentage will shift. Will this sector continue to stay at this current margin level? I do not think, we can risk an estimate there so it will follow if commodity price is shoot up yes margins will drop but we feel that given what our plans are we should be able to maintain or improve the margin level.

Sandeep Patel: Thank you so much.

Moderator: Thank you. The next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.

Mayur Milak: Just going through some numbers while it is assume that the total commercial vehicle tyres is around 18 million for the country and out of that assuming that 30% is radialisation which would mean the total family is about 5, 5.5 million of which you are now seeing 3.5 belongs to you am I reading it right?

Arun Kumar Bajoria: No, you are reading it wrong. The total truck radial demand in India now is at a level of about 6 lakh to 6.5 lakh tyres per month out this which is approximately…

Mayur Milak: That would be in 7 million.

Arun Kumar Bajoria: 7 million a year because the shift from bias to radial has taken place in the last two years with more and more radial coming in so earlier the mix was about 7 to 8 million bias if you saw 2014-2015 7 to 8 million was bias and 3.5 to 4 million was radial but in this year it has shifted to 5 to 6 million radial and going upwards and we will see that go up another million if you ask me in the coming year at the same rate and the bias will come to about the same so it will be almost 50%, 50% in the coming year if our prediction of bias capacity utilization goes up because we are sensing mining road construction industrial tyres and farm to pickup which will give a fillip to bias and feel free about a 55 bias, 45 radial in the coming year as well which is about 6 million tyres of truck.

A.K. Kinra: Mr. Mayur basically you are assuming 30% face valuation whereas Mr. Kamra has yet said that it is already 40% plus and even if you say 40% on 18 million.

Mayur Milak: Right then it will probably get the equation you are right?

A.K. Kinra: It will change the equation it will be 7 million plus.

Mayur Milak: So which typically means that you would have almost 50% of the radial capacity of the industry as such?

A.K. Kinra: Capacity what we export Mayur we expect approximately hopefully we will be exporting more than 30000 to 50000 radial tyres a month.

Mayur Milak: Sir what would that bring your market share too since you are saying you are a leader what would broadly be your market share in the TBR segment both OE and replacement?

A.K. Kinra: In overall market share last year we are at about 25%, 27% in radial 28%, 25%, 27% and we hope will nudge it up a bit in this year.

Arun Kumar Bajoria: Mr. Mayur these are all rough figures.

Mayur Milak: Right of course just a ballpark just to have an idea of where the industry is.

Arun Kumar Bajoria: You must understand that there are no authentic figures floating around for Chinese radials, because the Chinese radials import which have doubled this year in 2015-2016 as compared to last year has completely taken all estimates of the hook so really talking about figures in market shares will be a bit of so let us leave it at that. I can only tell you that we are the market leaders as far as truck bus radials are concerned.

Mayur Milak: This would be both with the OEs and the replacement?

Arun Kumar Bajoria: Absolutely.

Mayur Milak: Now that you looking at significant entry into the two wheeler space our initiate we have already started production and dispatches so typically you think that will probably add to the competition in the segment and the market share leadership enjoyed by both the MRF and CEAT so far?

Arun Kumar Bajoria: Though there maybe some tyres coming in but we are actually taken a running capacity here, we have taken over a running capacity so we have not added capacity, so we have not increased competitiveness in the market we have just taken over someone else's capacity. It will run at a reasonably high capacity utilization level by the way.

Mayur Milak: Sir just this last clarification on the Cavendish so while you are saying that yes everything is on the standalone books so while accounting purpose if you really doing a consolidated balance sheet for JK so in that consolidated books of accounts of course this debt will stand into the JK books of accounts right?

Arun Kumar Bajoria: That is right.

Mayur Milak: Since you mentioned that the JK owns a 64% in Cavendish where is the other 36% coming from?

Arun Kumar Bajoria: These are from our other group companies.

Mayur Milak: So this is completely within the company group companies?

Arun Kumar Bajoria: Yes.

Mayur Milak: Thank you.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Can you help me understand whether this additional capacity through Cavendish will result in a lower margin or in what kind of ROCEs do we expect from this business?

Arun Kumar Bajoria: On the contrary, Mr. Puneet we just mentioned that in Cavendish the existing margin which the other tyre companies are able to achieve we should be able to achieve in Cavendish as well on our capacity utilizations at the end of the year.

Vivek Kamra: The truck radial the way we look at it truck radial we do not see any issue in loading the capacity. Two wheelers in fact we do not see any reason why we should not completely load capacity quickly because we are still supplying the same market that the previous owner was supplying with the same number of tyres so we might ambition a few lakh more a month than they were doing. In truck bias, like I mentioned earlier in the call we have constantly rationalizing as well as right sizing across all our plants so we will optimize that and we are a little bullish about bias this year, bias capacity utilization this year and hopefully we have the rain gods are with us things may go better than you expect, there is a uptick on the mining industry as well as the road construction. I think this should and an uptick on the farm I think this should really help the bias tyres.

Arun Kumar Bajoria: Also the improvement on Latin America in terms of export of bias tyres huge number of bias tyres are going to Brazil which had stopped till the last six months it is could not under estimate that.

A. K. Kinra: All these factors in the current year should help in somewhat picking up the bias products also and that is the take.

Puneet Gulati: I may have missed out probably earlier what was the margin that this group made this entity made last year over last to last year as earlier?

Arun Kumar Bajoria: Yes, we have only added the asset sales so we do not have any balance sheet of anything before April 15, 2016.

A.K. Kinra: But Puneet, on the CIL I think you may want to look up their books earlier it was used the entire operation in Laksar was on conversion so there are no numbers on their profitability and I just earlier that the whole transaction was of the facility sale so we were not they did not have the benefit of the legacy or the margins and all that we have started on a clean slate.

Puneet Gulati: Thank you so much, all the best.

Moderator: Thank you. The next question is from the line of Disha Sheth from Anvil Shares. Please go ahead.

Disha Sheth: Sir what would be the volume growth guidance for coming year as Q4 is picking up in terms of volume. What would be the volume growth guidance in the coming year as we can see pickup in volumes and second would be what the average raw material sizes are for Q4 or FY2016?

A.K. Kinra: This will be a forward-looking query and we would like to explain this way given the market situation.

Vivek Kamra: As I mentioned earlier market prices you have seen the raw material price increases in the market so those are available those will probably our projection is they will flatten out or go down. This is an internal project and so we cannot take a call in that. In terms of volume growth our capacities we have shared with you we have also shared with you what we are targeting in terms of the volume capacities that these facilities have now in our consolidated between CIL and the JK tyres so you will see that is obviously our ambition is to cover as much capacity as we can how much will the market observe let's see quarter-on-quarter.

Disha Sheth: Sir in terms of debt what would be your consolidated debt gross and net?

A.K. Kinra: Consolidated debt as of March 31, 2016 of all these put together that is Tornel and JK Tyres is now close to about 2500 Crores and going forward yes we will have an additional debt of about 1700, 1800 Crores of the Cavendish so on an overall basis I think we will be about 4000 Crores plus in 2017 but having said that again I say fortunately all these had whether it is of Cavendish or it is of Tornel or it is of JK Tyres these are all been arranged on its standalone basis JK Tyres services is on that Tornel services is on that and CILs services on that yes the process of accounting there will be a consolidated debt because we have to prepare the consolidated account but in terms of servicing there is absolutely no interdependence for the debt obligations.

Arun Kumar Bajoria: Add to one more point here that our consolidated debt is when you make record you have to have the benefit of capture the turnover as under the profit which arise in the other standalone entity.

Disha Sheth: Sir FY2017 what would be the capex?

Arun Kumar Bajoria: You see we have already completed all the capex that we are undertaken and the last capex the Chennai Tyre plant of 1430 Crores is completed and so also the acquisition of Cavendish and therefore we do not plan any capex in the year 2016-2017 other than for regular of maintenance expense there.

A.K. Kinra: It is a very minor kind of it.

Disha Sheth: That would be 100 Crores or something.

A.K. Kinra: It could be less.

Disha Sheth: Sir in terms of OEM and replacement how is the demand like what was it in Q4 which you grew more in terms of volume in replacement and volume?

A.K. Kinra: Q4 our growth or overall demand.

Disha Sheth: Both.

Vivek Kamra: In commercial vehicles we have seen higher growth in OEM these are the aftermarket whereas all other segments the growth has been similar both in the aftermarket as well as the growth in commercial vehicles we have seen a 22% growth in the overall growth is about 22% OEs is very higher it will be almost 30% it is a 28%, 29% is the growth in OEM.

Disha Sheth: In TBR it will be mainly.

A.K. Kinra: In trucks yes that is right.

Disha Sheth: 30% OEM.

A.K. Kinra: 27%, 28% TBR.

Disha Sheth: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Lakshmi Narayana from Catamaran. Please go ahead.

Lakshmi Narayana: Thank you for taking my questions, I have coupe of them before I understand how much is your export for a year out of 6500 Crores how much of exports.

A.K. Kinra: Last year it was at around 560 Crores.

Lakshmi Narayana: If you actually remove the exports out of the balance 6000 odd Crores can you just give me the split between TBR, TBB, PCR, farm and LCV?

A.K. Kinra: I hope you will appreciate that we will not like to share this breakup of product wise turnover out of our total turnover.

Lakshmi Narayana: I mean that as this earlier in your presentations use to give this breakup?

Arun Kumar Bajoria: This is confidential information. We will not like to give you.

Vivek Kamra: The only thing that we have shared and which I can repeat is that earlier our radial two bias which we had mentioned was 48% bias and 52% radial has now gone the other way round and now it is 58% radial and 42% bias in the year which has just finished March 31, 2016.

Arun Kumar Bajoria: You will kindly appreciate that there are certain strategic reasons and please bear with us.

Lakshmi Narayana: Anything which you talked about what would be your recalibrated market share in TBR if you actually assume that there is no Chinese imports?

Vivek Kamra: Without Chinese imports our TBR markets they can go as much as 35% to 40% $1/3^{rd}$ of the market.

Lakshmi Narayana: See you mentioned that Chennai has around 1.2 million capacity, and the Laksar has 7.5 lakh capacity.

Vivek Kamra: Yes it is currently running.

Lakshmi Narayana: Hence the balance will be the Vikrant one which will add up to 3.5 million.

Vivek Kamra: Vikrant and Chennai put together.

Lakshmi Narayana: Sir but Chennai is 1.2 million already right?

Vivek Kamra: That is right.

Lakshmi Narayana: One last question on the gross margin what is the difference between the gross margin to OEM and the gross margin to replacement what will be the difference purely?

Vivek Kamra: I think it is a tough thing to share Lakshmi.

A.K. Kinra: Any days obviously the margins in replacement market are slightly better than the OEMs and which you are also fully aware if it is going up to specific tyre.

Lakshmi Narayana: Thank you so much.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question I would now like to hand the floor over to Mr. Mahantesh Sabarad for closing comments.

Mahantesh Sabarad: Thank you Margaret. Thank you the management of JK Tyre for patiently answering these questions. We had a very interactive session. Thank you very much Sir.

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