"Tolins Tyres Limited Q2 & H1 FY25 Earnings Conference Call"

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MODERATOR: **MS. PRIYANKA BHAGAT - ADFACTORS PR**

Moderator: Ladies and gentlemen, good day and welcome to the Tolins Tyres Limited Q2 & H1 FY25 Earnings Conference Call.

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 this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priyanka Bhagat from Adfactors PR. Thank you and over to you ma'am.

Priyanka Bhagat: Thank you. Good evening to all the participants joined on this call. A very warm welcome to our Quarter2 and H1 Financial Year '25 Earnings Conference Call.

To guide us through the results today, we have the senior management of Tolins Tyres Limited headed by Dr. K.V. Tolin – Chairman & Managing Director; Mr. Sankarakrishnan – Non-Executive Director; Ravi Sharma – Chief Financial Officer, and Cyrus Tolin, VP (Operations).

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature. The actual results may vary as they are dependent on several external factors.

With that said, I would now hand over to Dr. K. V. Tolin to share his comments. Thank you and over to you, sir.

K. V. Tolin: Thank you. Good evening, everyone. Thank you for joining us today for our maiden earnings call following our IPO. As we hold our first earnings call following our listing, I would like to begin with a brief overview of our company's history and operations.

Our operations began in 1982 as a proprietorship with Tread Rubber Manufacturing. This was incorporated into a private limited company in 2003 that commenced production of Precured Tread Rubber, or PCTR, in 2005. Since then, we have established ourselves as a prominent player in the tyre retreading industry across India, with exports to 40 countries, mainly Middle East, ASEAN, and African regions. Tolins Tyres Limited appraised in two verticals, first being PCTR and second being manufacturing of tyres for two-wheeler tyres, three wheelers, light commercial vehicles and agriculture applications. Along with this, we also manufacture various accessories that includes bonding gum, tyre flaps, and vulcanizing solution. Over the period, we have been recognized for the commitment to excellence, the product quality, and innovation. This helped us establish a long-term relationship with our customers. The company caters to all three segments of market, like exports, domestic sales and OEMs, original equipment manufacturers. We are a fully backward integrated company with raw materials processing, design, process, engineering, and machining capabilities, which allow us greater control over process, timelines, pricing, and quality. Our products, we have also forward integrated with the market, with the network of sales channels throughout depots and dealers across key states in

India. As on September 13, 2024, we have eight depots and 3,737 dealers across the country. Our facilities in India are strategically located near two key sources of natural river and essential infrastructure, including airports, seaports, and national road network. This advantageous positioning provides us with a competitive edge in meeting the market demands. Currently, our consolidated manufacturing capacity includes 1.51 million tyres, 12,486 tons of tread rubber, and 17,160 tons of rubber compounds.

Our competitive strength lies in operation efficiency, ensuring timely delivery, stringent quality control, and product innovations. Each of our product category in tyres is BIS approved. In the month of September, the company and public raising Rs. 230 crores, the shares were successfully listed in BSE and NSE on September 16, 2024. The proceeds from IPO are designated for several key purposes. First would be to repay certain outstanding loans, second to enhance companies' long-term working capital requirements. Third, to invest in our old wholly owned subsidiary, Tolin Rubbers Private Limited, and to repay its short-term and long-term borrowings and to bolster its working capital and lastly, for general corporate purposes.

We are a fast-growing and profitable company in the retreading and tyre manufacturing space. Tolin Tyres grown at a CAGR of 541.98% between FY22 and FY24 on a standalone basis and on a consolidated basis. Over the years, we have expanded manufacturing capabilities in addition to our growing dealers and distribution network. With over four decades of experience, we rely on our product development capabilities to design and deliver proprietary products such as Precured tread rubber and bias tyres that are market fit.

As we look to the future, we have a vision of driving sustainable growth and enhancing our competitive position in the market. We aim to optimize our capacity utilization, targeting a progressive increase of 75% over the next few years. This goal is not just about numbers, but represents our commitment to efficiency and excellence in operations ensuring that we leverage our resources to the fullest potential. In parallel, we are focused in expanding our reach within both domestic and international market. We recognize the importance of strengthening our presence in key domestic areas while also targeting specific international clusters that align with our strategic goals. This dual approach will enhance our market footprint and diversify our revenue streams. We would also be expanding our product range.

Our commitment to innovation drives us to invest in and develop of new products that meet evolving customer needs and preferences. We believe that pursuing inorganic growth through selective acquisitions is essential for our long-term success. We will actively seek strategic opportunities in rubber and rubber-based products sector. This acquisition will enable us to enhance our capabilities and broaden our market accesses. As we expand our presence in tyre recycling industry, we are committed to developing sustainable manufacturing practices and to make a positive impact on the environment. Additionally, this commitment qualifies us for the extended product responsibility, EPR benefits. Our vision is clear. We are committed to optimizing our operations, expanding our market presence, innovating our product range, and pursuing strategic acquisitions. Together, these initiatives will position us for sustained growth and success in the years ahead.

We thank all of our valued stakeholders for our continued support, trust and faithfulness. Thank you. Now I would like to our CFO, Ravi Sharma to brief us on the financial performance of the first half of 2025. Thank you.

Ravi Sharma: Thank you, Dr. Tolin. In Q2 FY25, revenue from operations was Rs. 76.88 crores as compared to Rs. 46.81 crores in Q2 FY24, a year-on-year growth of nearly 64.24%. This growth was mainly on account of increase in demand from customers, both in OEM business, combined with introduction of three new tyre models for the two-wheeler segment and India contributed 95% of the total operational revenue and UAE contributed 5% in H1FY25.

The EBITDA for the quarter increased by 15.72%, but this resulted in a margin decline of 830 basis points. The decrease in margin was primarily driven by higher raw material inventory levels maintained to meet strong demand. Additionally, employee costs rose due to the increased production of labor-intensive tread rubber and the strategic hiring of marketing executives to support expansion into new markets. PAT has grown by 13.45% to Rs. 9.60 crores for Q2FY25 compared to Rs. 8.46 crores in Q2FY24.

In the first half of FY25 the company recorded operational revenue of Rs. 153.18 crores compared to Rs. 88.02 crores in H1FY24, reflecting a year-on-year growth of approximately 74.03%. This strong growth was driven primarily by increased customer demand, a rise in the OEM business, and the launch of three new tyre models for the two-wheeler segment.

Geographically, India accounted for 92% of the total operational revenue, while the UAE contributed 7.9% in H1 FY25. The company continues to maintain a revenue split between tread rubber and tyres at 75%-25%. EBITDA margin was 19.61% in H1 FY25, a decrease of 515 basis points. This decline was mainly an account of increase in raw material inventory maintained to cater to the high demand. The employee costs also increased due to the increased tread rubber production that is labor intensive and strategic hiring of marketing executives for entering new markets.

PAT has grown by 46.69% to Rs.18.51 crores for H1 FY25 compared to Rs.12.62 crores in H1 FY24. On account of higher revenue, profits and interest costs significantly reduced with loans paid off with the proceeds of the IPO. During H2 of FY25 we reduced the total debt by 85% by repaying almost Rs. 79 crores of total debt using IPO proceeds.

Now we are open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Supan Parikh, an individual investor. Please go ahead.

Supan Parikh: Why the revenue from operation has increased by 64% year-on-year and which segment has contributed the most amount of growth?

Mr. Sankarakrishnan: Predominantly, Tolins operate traditionally over 40 years. The segmental business which started with concentration of tread rubber business, which is called Precured Thread Rubber, PCTR, this material is used for the retreading industry. That has been the dominant business of the company since the company started operations. 2005 onwards the new vertical with regard to tyre industry came in. And even in tyres, our main concentration has been only on two-wheelers, LCV, and the tractor tyres. So these are the main concentration areas within the new tyre manufacturing. And if you go by the last 2 to 3 years of our operations, quarter-on-quarter basis and on yearly basis, the thrust is towards the tread rubber to the extent of 75% of our revenue and 25% of the revenue is contributed by the new tyres. Even in the expanded growth in the first year from Rs. 88 crores to about Rs. 153 crores in comparison between H1 of 24 to 25, we have still maintained the same ratio of around 75% in tread rubber which is for the replacement market and 25% of the new tyres which predominantly is concentrated on the two-wheelers and tractor tyres.

Supan Parikh: And also I wanted to ask, sir, the percentage of the revenue from exports?

Mr. Sankarakrishnan: The export market has been exceptionally good, mainly because of the ban on the import of the Chinese goods, not only in our country, but also in the Western markets like Europe and US, etc. So there has been a huge demand post-COVID with regard to the tyre and tyre-related tread rubber products in the overseas markets. Post-aggressive demand after COVID is so high, and the realizations are much better, the company has been very selective in picking up markets with regard to exports market. So in spite of huge potential and opportunity for export, we found that the realization in the local market itself is much better, and that too at a lower credit period and realization. So we had restricted ourselves in spite of huge orders on hand for exports within the domestic country. So around about 90% to 92% comprising of our domestic market sales. And about 8% to 10% is comprising of the export market with only reputed players in the market, mainly into UAE and other select countries, where we have been established relationship with those customers for a long period of time.

Supan Parikh: And which are the countries are we exporting, sir?

Mr. Sankarakrishnan: Currently, I think the last year we exported to about 18 countries. So if you had the opportunity mainly into UAE and major other countries nearby. And if you happen to go into our website, you'll find the names of all the 18 countries for whom the exports are done is very clearly established.

Supan Parikh: Apart from these 18 countries, are we planning to expand more?

Mr. Sankarakrishnan: As I explained to you earlier, there are enough and more opportunities today in the export market. Just to give you a small example, the major tyres manufacturing companies like MRF, JK Tyres, Apollo Tyres, CEAT etc. have been able to double their exports in the last two years because of the huge demand in the export market, especially in the radial segment. So the opportunity is quite large in the export market, but since our positioning of business model is a little different than that of the others, we find our positioning to address the local aggression in the demand for a better realization with a shorter period of time of realization of money also is favorable to the company. As a mid-segment company, we want to follow this. At the same time, look at the opportunities to penetrate into developed markets.

Supan Parikh: And also I want to ask that there is 90% year-on-year growth in raw materials. Can you throw some light on that?

Mr. Sankarakrishnan: No, as and when the revenues have been growing steadily over the period of time, obviously the consumption patterns of the raw material is also going to be consistently on the higher side. So there will be increase in the purchases that have been accommodated. And traditionally, Tolin Tyres have followed a principle of stocking high levels of inventory, taking advantage of the low pricing of rubber up to March. And our inventory levels will always be very high during March because in Kerala, we are very close to a place where the natural rubber is produced. So 70% of the produce comes from that place. What happens basically during the monsoon time, there is no tapping of rubber. So during the non-tapping of rubber period and in monsoon, the natural rubber prices artificially tends to go up and then settle down post September which is actually what has happened during this particular year also. You saw the natural rubber prices climb up to Rs. 240 a kg. Now it has settled somewhere around about Rs. 170 or so. So in order to maintain the margin profiling and in order to have the efficiency of operations, every penny in the company is utilized to stock up to the maximum levels in the March period so that up to September when the tampering of the prices take place, we are better off. That is why in comparison to many of the companies in the peer group, we have been able to during the September quarter post a much better margin profiling than the rest of the players.

Supan Parikh: And last question, sir, there is a 48% increase in employee costs. So have you hired more employees or what is the reason behind it?

Mr. Sankarakrishnan: No, as you've heard, we have been operating only around 30% to 32% of capacity utilization. Now with more OEMs getting added, more business getting added, and after the successfulness of the IPO, etc., in anticipation of the success of the IPO itself in the second quarter, we had gone in for increased capacity utilization, etc. So whenever the capacity is to be expanded, this is a working capital intensive and labor intensive industry. So obviously when we have to scale to the next level of growth in the production, it will require more casual laborers and temporary laborers to be employed and accommodated. And obviously that has resulted in the higher wages in terms of the employee cost. And the employee cost not only includes the salaries and things like that, it is also inclusive of the employee welfare that the company is known for in giving over periods of time in terms of their food and accommodation and all those kinds of things. And the second quarter is also accompanied by extra incentive in terms of the bonus and other incentives that are rolled out because the month of September has Onam and Onam is the biggest festival in Kerala, like how Deepavali is celebrated in rest of the country. So Onam time, the bonus and other extra benefits also accrue to the employee cost.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Evergreen Capital. Please go ahead.

Pramod Kumar: Sir, just wanted to understand what has been your capacity utilization in the first half?

Mr. Sankarakrishnan: It is close to about 35% to 37%.

Pramod Kumar: Sir, could you give me the split between both the segments?

Mr. Sankarakrishnan: Both the segments are more or less, average is around 37. If you look at the tread rubber, probably we would have gone up to about 40%. And if you look at our tyres, we would be probably 30-32. That's why the average is about 35 to 37. You have to take the capacity utilization, Mr. Pramod, into account from a historical perspective. You may not have had the access to our earlier discussions with regard to during the IPO, etc. So if you had tracked that particular pattern of our explanation, you would observe that two years ago, the promoters had gone ahead and acquired one of the major tyre manufacturing companies within the vicinity which they could not operate and run for various reasons. So we increased our tyre capacity from 1000 tyres per day to about 5000 tyres per day with the infusion of money from the promoters. This is prior to the IPO, which happened two years ago. And tread rubber, again, we have been expanding the capacity consistently, and we have reached very close to about 17,160 tons and things like that. Now, with that kind of expanded capacity, you need very large dosage of working capital to address the capacity utilization. Today, if you ask me for the demand supply, the demand supply is in favor of the suppliers. So that opportunity is very much in place domestically. Even in export market, there is a huge opportunity. But you require this particular industry being a highly working capital-intensive industry, we did not till the IPO, carry so much of working capital limit from the banking system that in spite of creating a capacity that we could have gone ahead and addressed that extra capacity that is required for the market place very easily without the infusion of money. Now that the IPO has happened and we have been able to become debt free and we have infused about Rs. 75 crores of additional long term working capital being infused into the system, from now on, we are in a much better position to increase the capacity. Now September only, the IPO has happened and the money has come into the system only post-16th of September. So June quarter and September quarter has been on standalone basis with the dependency on the working capital from banking system etc. And now that the system has got debt-free and with additional working capital resources available in the cash flow system combined with robust working results and the cash flow that is out, or any accruing out of the internal accruals, the third quarter onwards, you'll find that there is a much better efficiency in terms of utilizing the capacity. And in the next 2 to 3 years, we'll be able to reach 75%. Meaning, company need not invest any fresh money into the CAPEX over the next 2 to 3 years period, we just have to focus on the demand supply and keep increasing the capacity to go to next thresholds of revenue, thereby improving the EBITDA and profitability.

Pramod Kumar: Sir, by your explanation, so could we close a year with Rs. 300 crores roughly around topline with about 55%-60% kind of utilization?

Mr. Sankarakrishnan: The company has never been in the guidance so far and going by the first quarter and second quarter results, all I can give you the hint is our second half is always much better than the first half. And the first half itself Rs. 153 crores we have reached. So the figure that you are mentioning is something which is easily achievable.

Moderator: Thank you. The next question is from the line of Riken with Capri Global?

Riken: First, if you could in your comments to the previous question you mentioned about currently the market is a supplier's market and therefore there are strong prospects in the domestic market. Can you please elaborate a little bit upon what is the factor why you said so and the dynamics in the industry currently?

Mr. Sankarakrishnan: I would attribute three major factors for making that statement of suppliers market. One is, and that is not so across the board kind of products. The sector in which we are present, verticals in which we are present is predominantly in tyres in wheelers, in tread rubber which you saw the replacement mark. If you go by the industry research reports, like ICICI, CRISIL or many of those kind of industry report or ATMA's industry report, you will find that the two-wheeler segment is the fastest growing segment in India. The replacement market is also growing in double digits. Post COVID there has been so much aggression in terms of these two segments of products, that the existing players are not able to cope up with supply, during even the rising of prices temporarily by the natural rubber, because of the excess demand in the industry, we have been able to pass on that increase in raw material cost to the end consumer without any difficulty. Now that the rubber prices have come down, the realization prices have not come down proportionately because the demand continues to be robust. Why the demand continues to be robust is because of two reasons. Post-COVID, there has been a huge demand in the automobile and in the commercial segment of the vehicles. This is first reason. More relevant than that reason is there is a ban by the Indian government on the Chinese goods import. This is the next major factor. These two factors make the domestic market very robust, very resilient, and we expect the demand, the way the automobile industry and commercial vehicles are growing, to continue for the next 2 years without any difficulty, which is why I am saying it is still a supplier's market, and more you are able to produce, you still will be able to meet the demand very easily.

Riken: The second question which I have is with regards to the overall client addition also which you commented that we have added quite a few OEM customers. If you could elaborate a little bit more upon that as to what new additions have been made and what kind of prospects do we have with them?

Mr. Sankarakrishnan: See, predominantly our supply chain and the revenue sales mix revenues have come, predominantly from the retail segment because we operate through eight depots and 3,737 dealers in the country. 70% to 80% of our sales is accrued out of the retail network sales and only about 10% to 20% is through various channels and about 6% is only through the OEMs till about March 2024. That means, when you increase the capacity utilization, after you have become very comfortable with regard to the working capital and the cash flow which is available under your control, then you have to scout for large supplies running out of the production facility to be channelized to major OEMs. So during the quarter, we have been able to add couple of OEMs in the two-wheeler industry to which the supplies have started. And in the coming quarters, the same quantum with improvement in capacity utilization and production will continue to dominate more. And over a period of time, in the next 1 or 2 years, we want to ensure that the 6% of supplies to OEM in the tyre industry, the tyre vertical, and about 5 % in the PCTR segment is increased to at least about 10% to 15% to OEM sales in both the verticals.

Riken: Just one more point related to that customer base. In one of the presentation slides, you have indicated how the top 10 customers dependence has gone up from about 25% in 2023 to now about 53% in the first half? Could you elaborate a little bit more?

Mr. Sankarakrishnan: They're not basically OEM customers where I can explain about the dependency. In our explanation of top 10 customers means top 10 distributors. And these distributors are people with whom we have been working for long periods of time, for decades together and they represent us in different geographies within the country. Whereas the dependency and the concentration of clients will come, provided I'm increasing my percentage from the top 20% to 35% or 40% only to select OEM customers, then the concentration and dependency will come. Here it is the large established dealership network through whom the channel is taking place and the channel is the last mile delivery channel and our sales revenue still at this point in time is only about 70% to 75% only into retail.

Riken: And just one last question, sir. Your margin profile if I were to look at, in the previous year the first half margins were at around 24.76% which then for the full year stood at about 20%, which means the second half margins were about 500 basis points lower than the first half and this year first half margins are at 19%. So how do you sell the full year trend, because it's been quite volatile in the previous year and we do not have a clear understanding of what will drive the margins for the full year, so if you could help it some visibility how this should shape up?

Mr. Sankarakrishnan: The last year Q2 September '23 numbers has been an aberration. When I say aberration because we had the express low inventory carry that we had for 22-23 and 23-24 and because of the geopolitical reasons, the crude prices in 22 and 23 were so low. So obviously the natural rubber prices and the synthetic rubber prices and the black carbon is all linked to the international crude oil movement prices. And crude oil was excessively low at those kind of time, in which time we had stocked too much of stock also, which helped to improve the margins beyond the point. Even as a whole in the tyre industry, if you have seen, between '22 to '24, for the same quantum of production of tyres, these two fiscal years have seen 3-fold, 4-fold, 5-fold increase in PAT for many of the companies, including MRF or JK Tyres, or Apollo, or CEAT or anybody. So we also had a similar experience during that particular point in time. But on an average, if you go by a very clear cost matrix and the supply chain and the demand supply which is there in the market you can take it on a sustainable basis margin to be around 30% in the gross margin, about 20% at the EBITDA level, and about 10% to 12% in the PAT level. This is what is sustainable, and this is what we have been working on. Any other extra situation which comes in to giving a small dose of extra benefits can be only out of supply chain efficiency and your ability to carry low cost inventory.

Moderator: Thank you. The next question is from the line of Sangeeth V from Equitech Capital. Please go ahead.

Sangeeth V: My one question is whether we will benefit from the extended producer responsibility of larger companies, whether we can participate in that?

Mr. Sankarakrishnan: We have done a lot of study about the EPR and its applicability for Tolin Tyres. Our product predominantly being in this Tread rubber replacement market, so there is the feeling that we are definitely eligible for it. But there is a team which we have constituted within our R&D department, which is studying the applicability and which is studying the eligibility and which is also studying for our kind of size of operation, what is the quantum of that EPR eligibility that it's going to be? This is one aspect. The second aspect is the company is also committed in growing into a recycling kind of methodology, which is again a work in progress kind of an academic thing. Under the appropriate time, the company will make right announcements with regard to its entry into the recycling area, where the reclaim of rubber and the eligibility to tap the EPR markets will also be put into place.

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

Taranum: So my question is that the company at the moment is negative cash flow from operating activities. So when is the company expected to get into a positive cash flow?

Mr. Sankarakrishnan: December quarter onwards.

Taranum: Sir, wanted you to have some like, what are your opinions on the falling stock price because the stock has fallen by almost 30% since the debut.

Mr. Sankarakrishnan: Actually I should have been asking this question to you, because frankly speaking, as management people are professional people in the company, we only know what best practices that we need to have and how we have to position ourselves in terms of fulfilling the promise versus performance into the market and which is where the company and its management is fully focused. We don't understand the dynamics of the capital markets in terms of its secondary market trading, etc. There could be a number of factors, like how people want to stay for long or how people want to exit short term and especially after the IPO a lot of people from the Bombay market they tell us that the first year there is a lot of churning of the investors and the holding that takes place so first year is never correct a measure to correctly evaluate the fundamentals of a company etc. We still feel that we are a very promising company, we are a performing company, and fundamentally we are very strong. And I think at right point in time, the right quality of investors will find value and it will find its own level is what we personally feel and we don't track the movement and things like that on a day-to-day business whereas I want to spend more time tracking the movement of rubber prices which is more valid to the company in this performance in future.

Taranum: One final question, sir. With respect to the US Presidential elections and Trump coming in, with him focusing more on drilling more of oil and crude being more available, what is the impact going to be of say falling crude oil prices on the company's balance sheet?

Mr. Sankarakrishnan: No, I think the crude oil prices is directly linked with the international market to the movement of the natural rubber and synthetic rubber and carbon black, etc. And given the current trend geopolitically, and given the production levels that are happening, and the imports that are happening into the country, we are extremely optimistic that there is going to be a very low regime of the raw material prices with better realization because of the aggression in demand and supply. So we find that as a tyre industry company and the tread rubber manufacturing company or any tyre, rubber related products, all the companies are good to go for at least a foreseeable future with better realizations and clocking of margins and cash flows is what our internal reading of the whole situation.

Moderator: Thank you. Ladies and gentlemen, we will end the question-and-answer session at this point. I would now like to hand the conference over to Dr. K. V. Tolins for closing comments. Over to you, sir.

K. V. Tolin: Thank you very much. I would like to thank all our clients, partners and the Tolins team and our stakeholders. It's your commitment and trust that enables us to pursue our vision of being a steadfast partner in enhancing operational efficiency, enduring quality, and to lead in shaping a sustainable and prosperous future for our customers and the world. We are excited about the journey ahead and look forward to building value together. Thank you.

Moderator: Thank you. On behalf of Tolin Tyers Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.