

Q3 2011 Earnings Call - Balkrishna Industries

Dt- 1 Feb'11

Operator

Ladies and gentlemen, good day and welcome to the Q3 FY11 Results Conference Call of Balkrishna Industries hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all the participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference to Mr. Bhushan Gajaria with IDFC Securities Limited. Thank you and over to you sir.

Bhushan Gajaria

Thank you, Marina. Good afternoon everyone and welcome you all to Balkrishna Industries Q3 FY11 earnings call. Representing the management, we have with us Mr. Arvind Poddar, Vice Chairman and Managing Director; Mr. Anurag Poddar, Executive Director and Mr. B. K. Bansal, Director Finance.

Without further ado, I would like to hand over the floor to management for initial remarks and then take over the quarter-and-answer sessions. Over to you, sir.

Arvind Poddar, Vice Chairman and Managing Director

Thank you, Bhushan. Good afternoon to all of you.

I welcome all of you again for the discussion on our third quarter results. Along with me, we have our senior management team members Mr. Anurag Poddar, Executive Director; Mr. B. K. Bansal, Director Finance.

For our standalone tyre business, we saw our revenue growth of 43% over the last corresponding quarter recording sales of Rs. 496 crores. The EBITDA for the current quarter is Rs. 88 crores, which is around 18% of sales. Our net profit for the current quarter is at Rs. 38 crores, which is around 8% of sales. The volume for the current quarter is 27,825 metric tonnes compared to 21,303 metric tonnes in the corresponding period of previous year.

Now, let us look at the operating environment; this quarter has been a tough one for the entire tyre industry on account of ever increasing natural rubber prices. Usually, the third quarter of the year witnesses lowest rubber prices. But this year, as you all are aware that it has been a reverse situation. Natural rubber prices at the moment in India are hovering over Rs. 230 per kg.

The upward movement in the prices is due to the erratic climatic conditions in major rubber producing countries. We believe that this has further led to increase the speculative interest in natural rubber. This has resulted in margin pressure on all the tyre manufacturers though there is no major demand-supply mismatch. The prices of natural rubber on the longer-term basis will come back to the economy of demand and supply.

At BKT, we have been able to pass on cost increases by having three price hikes in the last 12 months. We increased prices in January 2010, June 2010 and recently January 2011, which has cumulatively led to the price increase of 20-25%. This has cushioned the fall in the operative margins to a great extent.

Further, the next five months we are tied up our requirements of natural rubber. On market, the market sentiments continued to be buoyant. The numbers of orders being placed by OEM segments is witnessing huge increase across the world. The automotive sector has bounced back strongly. The replacement market is also growing.

Moving on the specifics at BKT, we have seen a high growth in sales across geographies. Our volume for the nine month period are 80,959 metric tonnes, which shows a growth of 37% over 59,174 metric tonnes over corresponding period of previous year. On revenues, we grew by 50% on nine months basis compared to corresponding period of previous year due to growth in volume, product mix and price hikes.

The company recently has an order book of around 34,000 metric tonnes, which is equivalent to three and a half month sales. We continue our growth volume guidance of 100,000 to 110,000 metric tonne during the current financial year. The EBITDA margin for the full year basis would be in the range of 18 to 19%.

Key updates on company; the split in face value of equity shares from Rs. 10 to Rs. 2 has become effective from December 2010. In

December, the company reduced its debt by redeeming the FCCB of US \$24 million, which includes 2 million towards redemption premium.

Lastly, our capacity expansion at existing plant is progressing well. The current achievable production capacity will be increased from 120,000 metric tonne to 130,000 metric tonne by upgrading and debottlenecking. Also our Greenfield expansion at Bhuj has been progressing as per scheduled. The ground breaking ceremony took place on 28th of January 2011.

The commissioning of the plant is expected in second half of FY 2013. The facility will manufacture the entire range of our products. Forth commissioning of Bhuj plant, the total achievable production capacity of the company will be approximately 220,000 metric tonnes per annum.

Now, I open the floor for questions.

Questions And Answers

Operator

Thank you very much, sir. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Shefali Doshi from KJMC Capital Markets. Please go ahead.

Shefali Doshi

Yeah. Good afternoon sir, and congratulations for good set of numbers.

Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.

Shefali Doshi

Yeah. Sir, will it be possible for you to give us the breakup of revenue in absolute terms and in volume terms based on the industry?

Arvind Poddar, Vice Chairman and Managing Director

No, I could not get your question.

Shefali Doshi

I wanted to know the breakup of revenue like as to how much was from OEMs, automotive, aftermarket and if there are any other industries?

Arvind Poddar, Vice Chairman and Managing Director

Basically, the revenue from OEM is around 6, just hold on, around 6%.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And indirectly is another 6% that is through our distributor. So, all put together, the OEM revenue is 12% and rest is about 8% is from

OPEC, sorry 6% is from OPEC.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And balance is from replacements.

Shefali Doshi

Okay. Sir, is it possible to give the same breakup in the volume terms?

Arvind Poddar, Vice Chairman and Managing Director

This is by and large the volume and the revenues is same.

Shefali Doshi

Okay. And sir for your order book, can you give the same breakup?

Arvind Poddar, Vice Chairman and Managing Director

Order book is out of this 34,000, I would say is around 32,000 is from replacements and 2,000 is from OEMs.

Shefali Doshi

Sir, can you share the margins here by different segment?

Arvind Poddar, Vice Chairman and Managing Director

Basically, I mean it depends on the different type of tyres. I would say the margin is slightly lower in OEM and rest is the same.

Shefali Doshi

Okay. Sir, just wanted to know your view on how the economy is effecting your growth opportunities and business opportunities for U.S. and Europe?

Arvind Poddar, Vice Chairman and Managing Director

I mean at the moment, as I mentioned, is that there is a good growth coming from the entire world.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And I think even in future the same will continue.

Shefali Doshi

Sir, is it possible for you to give the geographical breakup of the revenues and the order book?

Arvind Poddar, Vice Chairman and Managing Director

Yes, the revenues and the order book is by and large the same with Europe is around 50%.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

North America is on the increased volume is about -- yeah, this is about 16.5%. Asia is 6%.

Shefali Doshi

Sorry sir.

Arvind Poddar, Vice Chairman and Managing Director

Asia.

Shefali Doshi

Asia, okay.

Arvind Poddar, Vice Chairman and Managing Director

Africa is 5%.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Australia is about 4%.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Rest is Latin South America, Middle East and so on.

Shefali Doshi

Okay. Sir, do you have the numbers for the December '09 quarter, geographical breakup numbers?

Arvind Poddar, Vice Chairman and Managing Director

At the moment, right now I do not have. But I will ask somebody to send you.

Shefali Doshi

Okay, fine. And sir, how is your working capital cycle?

B.K. Bansal, Director-Finance

Working capital cycle is of three months.

Shefali Doshi

And sir, in that do you have the breakup of debtors inventories currently?

B.K. Bansal, Director-Finance

Debtors are of 60 days and inventory is of 90 days.

Shefali Doshi

So sir, how is the debtors days in your company specifically like. Is this is the same trend continuing or is there any unreasonable amount of increase on investment in your debtors?

B.K. Bansal, Director-Finance

No, the same trend is continuing.

Shefali Doshi

Okay, and sir just wanted to know on your raw material side as to how exactly you place an order for like whatever orders you have in your hand. Is it on order-to-order basis or you have like a one system of placing an order, maintaining a specific month's inventory.

Arvind Poddar, Vice Chairman and Managing Director

No, I mean basically it is not order-to-order. It is the production planning what we have for the next six months and based on the what we feel about the raw material, we enter into contract and place the orders.

Shefali Doshi

So sir, if there is like any hike in rubber prices post you enter in the contract, so how is the scenario? Are you able to pass on the hike in the raw material prices and to what extent?

Arvind Poddar, Vice Chairman and Managing Director

I mean basically our pricing is by and large six monthly basis. And we take the estimated the price what we feel and based on that we procure the material.

Shefali Doshi

Correct sir. But sir whatever prices you have mentioned in the order, and if there is any substantial hike in the rubber prices...

Arvind Poddar, Vice Chairman and Managing Director

No...

Shefali Doshi

Over and above your the price, which you have quoted in the contract. So how is it you are dealing with. Are you able to pass on the increase in price? I mean post your contractor space or like is there any price variation close basically in your orders?

Arvind Poddar, Vice Chairman and Managing Director

I mean basically what the experience we had is that there is always a lag effect. But not by and large, because we have to also see the market, the other competitors; and based on that, we take the price increase, but definitely there is some lag effect.

Shefali Doshi

Okay sir, I understand the lag effect. But whatever order book you mentioned, so is it the fixed price contract or is there any price variation towards the end...

Arvind Poddar, Vice Chairman and Managing Director

No, it is I mean the either the fixed price or the time bound.

Shefali Doshi

Fixed price -- sir, what do you mean by time bound?

Arvind Poddar, Vice Chairman and Managing Director

Time bound means whenever we are changing, whatever material goes like our prices are changing on 1st of April. So, whatever material will go up to 31st of March will go at the contracted price; any pending order will go at the new price.

Shefali Doshi

Okay. And sir, as far as your, I mean you must be importing some quantity of rubber as well.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Shefali Doshi

So what is the ratio of domestic import?

Arvind Poddar, Vice Chairman and Managing Director

Basically what we do, is we always look at the market pricing in India as well in the international market.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And wherever we feel that the prices are favorable to us, we buy it.

Shefali Doshi

Okay, fine. Thanks. I'm done with my questions. I'll come back if I have other questions and all the best.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar

Sir, coming to the full year margin guidance, can you just elaborate detail on this, because you are saying full year margins will 18 to 19%, so...

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Bhagyesh Kagalkar

So, we should see an improvement in margin quarter-on-quarter now?

Arvind Poddar, Vice Chairman and Managing Director

I mean basically, if you are seeing that the nine months, which is around what I have stated, the EBITDA margins is around 19%. And if you look at the last quarter, which has ended, which is 17.44, which includes certain FCCB premium, what we have paid, has been debited to the interest account. So, more or less what we feel is that because for this quarter January is already ended. So there are only two months, which are remaining; and based on the raw material, what we have and the order prices, I think we should be able to maintain this margin.

Bhagyesh Kagalkar

Okay. And can you comment on the interest costs for the quarter?

Arvind Poddar, Vice Chairman and Managing Director

Interest costs is...

B.K. Bansal, Director-Finance

Interest cost is around 3% for us.

Bhagyesh Kagalkar

Okay. And what is the total loan now, secured plus unsecured plus everything?

B.K. Bansal, Director-Finance

Total loan is around 460 crore.

Bhagyesh Kagalkar

Okay. Thank you.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. [Operator Instructions]

The next question is from Sonaal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli

Hello Mr. Poddar. Congratulations on good results.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Sonaal Kohli

Couple of quarries, firstly, we entered into North America in a meaningful way two three years back.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sonaal Kohli

How has been growth in North America, let's say, in the first nine months versus Europe or rest of the business?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, I mean the America is growing and doing very well. If you look at first nine months, earlier it used to be around 14%. Now, it is 16.5%; and what we foresee is that there is a strong demand, which is coming from North America also.

Sonaal Kohli

Sir, is it 16.5% of 22% as mentioned in the presentation?

B.K. Bansal, Director-Finance

In the presentation, what has been mentioned is actually America's total. So, that includes North and South America both.

Sonaal Kohli

I see. So U.S. is about 16.5%?

B.K. Bansal, Director-Finance

Correct.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

Okay. And your future growth and large part of your growth will be led by U.S. or it will be across? From where are you seeing higher order books in growth projects?

Arvind Poddar, Vice Chairman and Managing Director

Yeah basically, U.S. the growth is improving as the economy what we have seen is better. And the growth in Europe will be steady or if we look at the entire world, there will be a steady growth.

Sonaal Kohli

Okay. Sir, as far as during recession, our OTR business was the one, which suffered when agriculture was steady. So how has been -- is the larger part of growth now happening because the share of OTR is increasing in overall revenue mix?

Arvind Poddar, Vice Chairman and Managing Director

No, I mean basically if you look at the agri is also contributing, the same percentage by and large and overall production and sales is growing for the company.

Sonaal Kohli

Sir, both across OTR and agriculture, it is not...

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

And it's clearly similar.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

Sir, secondly, we have increased the prices; how has been the price increase by our competitors and when did we do our last two price increases?

Arvind Poddar, Vice Chairman and Managing Director

As I mentioned that the last price increase, we have done in January 2011.

Sonaal Kohli

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And prior to that between June to July.

Sonaal Kohli

Okay. And sir, what would be the quantum of price increase in January?

Arvind Poddar, Vice Chairman and Managing Director

January was around 8%.

Sonaal Kohli

On an average for the entire company?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sonaal Kohli

And this is across geographies?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sonaal Kohli

And sir, how has the competitors, they have also increased the price?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, everybody were forced to increase the prices because of the steep rise in the raw material prices. But they have taken between 5% to 8%.

Sonaal Kohli

Okay. And sir, as far as natural rubber is concerned, what is was our average price for this quarter and...?

Arvind Poddar, Vice Chairman and Managing Director

Our average price for the rubber was around \$3,500.

Sonaal Kohli

Okay. And if you were to buy from the market now, sir...

Arvind Poddar, Vice Chairman and Managing Director

Now it is, international market is \$5,700.

Sonaal Kohli

And this \$3,500 will last till when, sir, for us?

Arvind Poddar, Vice Chairman and Managing Director

I mean gradually it is going to go up. And then for the current quarter, we estimate that it is going to be about \$3800 on an average and gradually it will be, because it's on a moving average basis.

Sonaal Kohli

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Because we have to cover every day.

Sonaal Kohli

So, by Q2, we should be back to \$5,700.

Arvind Poddar, Vice Chairman and Managing Director

I mean gradually...

Sonaal Kohli

Assuming the prices.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

Remains here.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

And sir, I mean do you think the market has further scope of price increases or you wouldn't like to test the market for next six months, and you know...

Arvind Poddar, Vice Chairman and Managing Director

So, I mean basically if it would be a normal situation, probably we would have taken the price increase in June, July. But the way in which the raw material prices have gone up, everybody will be forced to take the price increase. We are working the activity of others as it is we have taken a higher price increase. So, we are waiting and seeing that how the competitors are reacting to that. But I am sure that people will be looking at a price increase between April to June.

Sonaal Kohli

Sir, this price increase of 8%, which you have taken would be applicable for the entire quarter and for the entire business or there will be large previous orders on which this 8% price increase won't be applicable for this quarter?

Arvind Poddar, Vice Chairman and Managing Director

I think by and large majority of the portion will, we will get the benefit of it.

Sonaal Kohli

Sir, basically from as far as this quarter is concerned, you'll get the full benefit. And whatever impact of raw material will happen, it will happen in Q1 and Q2 basically. Because this quarter you'll again have a hedge at good price.

Arvind Poddar, Vice Chairman and Managing Director

No, basically it is like as I mentioned on the raw materials, it is on the moving average basis. So everyday, the prices of the raw material will move up.

Sonaal Kohli

Right.

Arvind Poddar, Vice Chairman and Managing Director

And the prices like in Europe is the date of delivery, so we are going to get the full benefit similarly like Australia and New Zealand. In certain countries, it is a fixed contract, where the restricted period will get the old price benefit. So, if we look at, on an average about 60% or 65%, we will get the benefit of the price increase, but gradually we will also get full price increase benefits.

Sonaal Kohli

Sir, considering the kind of situation we are in and since assuming natural rubber remains there, our historical or margin has been about 17% or so. Would you suspect that in 2012 if the raw material prices were to remain here and since you have already taken the price increases. Would we go at -- can we go down to as low as 15% as raw material costs start hitting us or there will be certain levers available to us?

Arvind Poddar, Vice Chairman and Managing Director

Basically, we are going to take another price increase whether it is going to happen in April or May or June, there will be a price increase. If the raw materials prices stay at this level, it will lift our bottom-lines.

Sonaal Kohli

Sir, your competitors have also, I mean they also have typically take covers off rubber and that is the reason why they haven't also increased the prices?

Arvind Poddar, Vice Chairman and Managing Director

Basically, it is a company-to-company. We have not come across any company, who is having long contract like what we have.

Sonaal Kohli

Okay. And you expect the market in general will take a price increase in days to come?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sonaal Kohli

And sir, what kind of growth in volumes can we expect in 2012 based on our capacity, based on maximum capacity utilization we can do into 2012?

Arvind Poddar, Vice Chairman and Managing Director

As I mentioned that we have already started upgrading and debottlenecking, and I think from 100,000 or 110,000, we will lift it to 125,000 to 130,000.

Sonaal Kohli

And sir, when would this likely to come up?

Arvind Poddar, Vice Chairman and Managing Director

On the FY13, our target FY12, FY12, our production will be or the sales will be between 125,000 to 130,000.

Sonaal Kohli

And sir, what will be our capacity like by the end of year, because we will be getting only in the mid year our capacity will increase.

Arvind Poddar, Vice Chairman and Managing Director

It will be around 130,000.

Sonaal Kohli

And sir, when do we expect our Greenfield -- Brownfield capacity expansion would be over?

Arvind Poddar, Vice Chairman and Managing Director

That should be by June 2011, June-July.

Sonaal Kohli

And sir, our Greenfield project, when it is likely to come up?

Arvind Poddar, Vice Chairman and Managing Director

FY13 that is going to be in the second quarter, third quarter beginning of third quarter and again, it will be a gradual addition and the capacity will be available.

Sonaal Kohli

Why is our interest cost only 3%, any particular reason?

Arvind Poddar, Vice Chairman and Managing Director

Because we are borrowing in ForEx, foreign currency.

Sonaal Kohli

But doesn't that in case of an adverse currency movement, doesn't that expose this to substantial risk in terms of...

B.K. Bansal, Director-Finance

No, no. Because we have exposed to the extent of 19% to be enjoyed in natural hedge.

Sonaal Kohli

Sir, but it actually means that whatever extra profit you could have got from these exports, you literally forgot those. So to that extent, there is a risk.

Arvind Poddar, Vice Chairman and Managing Director

I mean basically there is a risk and a gain, both.

Sonaal Kohli

Right.

B.K. Bansal, Director-Finance

The -- I mean whatever experience or whatever we have seen, we have to take a call.

Sonaal Kohli

And sir...

B.K. Bansal, Director-Finance

And basically based on our sales, we have to book the foreign currency.

Sonaal Kohli

Okay. And sir in terms of Euro rate, what was our euro rate for this quarter? And what is it likely for Q4, because we hedge one year in the advance?

B.K. Bansal, Director-Finance

We do not quarter wise numbers, but for the full year, the euro realization would be at around Rs. 63.

Sonaal Kohli

Okay. And based on current hedging what the rate likely to be, sir, for 2012?

B.K. Bansal, Director-Finance

It is between 63 and 64.

Sonaal Kohli

63 and 64. And sir when were we able to enter into the...

Operator

Excuse me, this is the operator.

Sonaal Kohli

This is the last query. When were we able to hedge these natural rubbers?

Arvind Poddar, Vice Chairman and Managing Director

Natural rubber basically, as a quality, we see that how the market is going to be. Based on that, we cover the natural rubber. Normally this is the period when the natural rubber prices should be at the lowest.

Sonaal Kohli

What led us to doing this cover considering we were expecting prices to come down and...

Arvind Poddar, Vice Chairman and Managing Director

I mean the next price should come down somewhere in August.

Sonaal Kohli

But sir, I am inquiring when did we -- entering to these covers like sir, for natural rubber?

Arvind Poddar, Vice Chairman and Managing Director

That's a regular. Regular basis, we are doing that.

Sonaal Kohli

Okay. Thank you so much.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. [Operator Instructions]

The next question is from Sourav Agarwal from Equirus Securities. Please go ahead.

Sourav Agarwal

Hello sir. Yeah my question is this 34,000 metric tonne guidance, this order book, which we have for three and half months, does this start from Feb or Jan?

Arvind Poddar, Vice Chairman and Managing Director

Jan.

Sourav Agarwal

From Jan. Okay.

Arvind Poddar, Vice Chairman and Managing Director

It would...

Sourav Agarwal

Okay. And hello?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sourav Agarwal

Yes. Sir, what would be our average rubber cost for Q4?

Arvind Poddar, Vice Chairman and Managing Director

Q4 it will be around \$3,800.

Sourav Agarwal

Sir but in the last con call, what we had discussed was that for the entire financial year FY11, the cost would be around 3,500 only?

Arvind Poddar, Vice Chairman and Managing Director

No, it's when they're moving...

Sourav Agarwal

Okay. And what would it be for first quarter FY12?

Arvind Poddar, Vice Chairman and Managing Director

That would be actually more, I would say is about \$4,200.

Operator

Excuse me, this is the operator; sorry to interrupt. Mr. Poddar, are you on the speaker phone?

Arvind Poddar, Vice Chairman and Managing Director

No. I am using -- just one second.

Operator

Could you just reduce the volume a bit.

Sourav Agarwal

Hello?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Operator

Thank you.

Arvind Poddar, Vice Chairman and Managing Director

Now it's better.

Sourav Agarwal

Yes, I also wanted to know that so for next quarter, our natural rubber, sir this price which you mentioned, this is including both natural and synthetic rubber right?

Arvind Poddar, Vice Chairman and Managing Director

No, this is only natural rubber.

Sourav Agarwal

Okay. And sir, for this quarter, we will have a price, we'll have a higher realization by around 8%.

Arvind Poddar, Vice Chairman and Managing Director

Average, I mean look around the entire world, it will be about 6% and then the full impact will be 8% thereafter.

Sourav Agarwal

Okay. And sir, our rubber cost will be higher by around similar 8% only.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sourav Agarwal

So, I'm just trying to get and we also have a higher crude price now. So nylon core, tyre fabric and carbon black will also be at higher prices.

Arvind Poddar, Vice Chairman and Managing Director

Yeah, it is gradually going up. But we have already covered the carbon black, we have already covered the fabric for the next quarter.

Sourav Agarwal

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And then there is -- we are working on how we can take a further price increase.

Sourav Agarwal

Okay. Okay, so for Q4, what kind of margins can we expect?

Arvind Poddar, Vice Chairman and Managing Director

Q4 margins.

Arvind Poddar, Vice Chairman and Managing Director

Between 18 to 19%.

Sourav Agarwal

Okay. Sir and for, so you're expecting rubber prices to come down, when?

Arvind Poddar, Vice Chairman and Managing Director

Logically, it should -- at this moment it should be at the lowest. And the next season will start in September, August-September. But this time it is just -- nobody is able to understand that why the rubber prices are at so high prices.

Sourav Agarwal

I think, so this August to September season will start in India or globally?

Arvind Poddar, Vice Chairman and Managing Director

No, it is -- Thailand will start much earlier and then it will start in India also.

B.K. Bansal, Director-Finance

Generally speaking, different regions have different production cycles. But you can assume that from August up to January is the normal peak production cycle for all centers.

Sourav Agarwal

Sure.

B.K. Bansal, Director-Finance

So that's the reason why this period should see the lowest prices in next season.

Sourav Agarwal

Sure. Sir, what has been the price hike from Michelin?

Arvind Poddar, Vice Chairman and Managing Director

Depending on geography to geography, somewhere they have taken 3%, somewhere they have taken 8%.

Sourav Agarwal

Okay. Sir, I also read that Michelin is going to increase prices in March by 8%.

Arvind Poddar, Vice Chairman and Managing Director

No, that is for our passenger and truck, bus.

Sourav Agarwal

Okay. And sir, what kind of margins are we going to target in FY12?

Arvind Poddar, Vice Chairman and Managing Director

FY12 should be more or less the same.

Sourav Agarwal

18 to 19%?

B.K. Bansal, Director-Finance

Yeah.

Sourav Agarwal

Okay. Sir, and one last question. Sir, what happens in a scenario, so we are adopting this policy of doing a cover I mean locking our rubber prices for forward quarters. So, if rubber prices fall at the start of the first quarter only next year, then in that case our profitability will come down drastically versus other tyre manufacturers?

B.K. Bansal, Director-Finance

No, why? We are not going to drop our prices.

Sourav Agarwal

No, sir if we are locked at say, Rs. 210 per kg, and rubber prices fall to 180 per kg...

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sourav Agarwal

...then relatively our profitability is going to drop versus other tyre manufacturers.

Arvind Poddar, Vice Chairman and Managing Director

Basically, our sale prices are not going to drop, so our profits are not going to drop. But that will give us the opportunity to cover for future so that our cost will come down.

Sourav Agarwal

Okay. Sir but if competition passes on some higher margins, in that case, we can lose on market share; and under pressure, we might have to...

Arvind Poddar, Vice Chairman and Managing Director

We have already seen that in 2008-09, where our profits have jumped in that kind of a scenario.

Sourav Agarwal

Okay. So normally, you are saying that because we already have orders booked.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sourav Agarwal

Okay. Okay sir, thank you.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Monica Chandak from Mata Securities. Please go ahead.

Monica Chandak

Hello sir.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Monica Chandak

Well, most of my questions have been answered; just one question that under ECB front, if you could just update us that what part would come in say '12 and what part of the ECB, I mean, would come in FY13 since you have been raising it in tranches?

B.K. Bansal, Director-Finance

Yeah, basically the entire ECB of 175 million will be available to us for draw down in the financial year. And we will have five months period to make that draw down. So it is up to us when do we break that draw on. We can make the entire draw down in the current financial year or partly in the current financial year and partly in the next financial year.

Monica Chandak

Okay. So...

B.K. Bansal, Director-Finance

It all will depend on the currency rate and we enjoy that flexibility.

Monica Chandak

Okay, okay. Fine, thank you sir.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Sai Anjali of Capital Markets. Please go ahead.

Analyst

Hi. I just want to clarify, you said FY12, the sales volume guidance will be 130, right?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Analyst

Okay, thank you. That's it with me. Thanks.

Operator

Thank you. The next question is from Kiran Chedda from Value Quest Research. Please go ahead.

Analyst

Hello.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Analyst

Sir can you give your breakup of revenue in terms of agri, tyres, used for mining OTR tyres?

Arvind Poddar, Vice Chairman and Managing Director

Yeah. Agri is 65%, OTR is 29% and the other applications is around 6%.

Analyst

Okay. And sir, what was the average life of these tyres?

Arvind Poddar, Vice Chairman and Managing Director

I think depending on the agri, tyre, if it is a radial again what kind of a tariff between three years to five years.

Analyst

Three to five years.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Analyst

Okay. And sir, what is our current, what would be our current market share, because I assume we are...

Arvind Poddar, Vice Chairman and Managing Director

It's between 3 to 4%.

Analyst

And what was it...

Arvind Poddar, Vice Chairman and Managing Director

Worldwide. It was about 2.5%, 3% and gradually it is moving upwards.

Analyst

So the only, what would, what is the competitive advantage is only cost basis or do we have...

Arvind Poddar, Vice Chairman and Managing Director

No, it's a complete package. It's a basically a quality is comparable to the world leaders. The price benefit, the complete widest range and the service what we provide.

Analyst

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Nobody else in the world is having this wide range.

Analyst

The service is provided only by Balkrishna and no other company provides that.

Arvind Poddar, Vice Chairman and Managing Director

I mean the kind of services, which we provide.

Analyst

Okay. And sir, earlier you said your OEM demand is 12%, replacement 80% and offtake is 6%?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Analyst

What is offtake?

Arvind Poddar, Vice Chairman and Managing Director

We are producing for the certain world leaders.

Analyst

Okay. For the other players.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Analyst

Okay. And the current debt on books is 460 crores, right?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Analyst

Okay. Thanks a lot sir.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Disha Shah from Anvil. Please go ahead.

Analyst

Hello?

Arvind Poddar, Vice Chairman and Managing Director

Hello?

Analyst

Yeah. Can I know the utilization of this quarter?

Arvind Poddar, Vice Chairman and Managing Director

Utilization of...?

Analyst

Capacity utilization for the quarter?

Arvind Poddar, Vice Chairman and Managing Director

At the moment, we are running our plants at 100 plus capacity.

Analyst

Okay. And can I know how are you going to fund the Bhuj plant?

Arvind Poddar, Vice Chairman and Managing Director

It is going to be from ECB as well as internal accrual.

Analyst

Okay. And why is the interest cost high this quarter?

B.K. Bansal, Director-Finance

It includes redemption premium of Rs. 8 crore, which we paid on the redemption of FCCB.

Analyst

Okay. And this quarter the price hike was?

Arvind Poddar, Vice Chairman and Managing Director

8%.

Analyst

8%, yes. Okay. Thank you.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Sarika Kukshya from Prabhudas Lilladher PMS. Please go ahead.

Sarika Kukshya

Thank you very much. My questions have been answered.

Operator

Thank you.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

The next question is from Neelesh Dhamnaskar from Religare. Please go ahead.

Neelesh Dhamnaskar

...opportunity. Sir, my question pertains to your sustainable, say, EBITDA levels. I mean you mentioned that around 18 to 19% what you are targeting for this year I mean at current rubber prices. But I mean just to get a sense, do you target any particular level of EBITDA per kg, I mean which say one can look forward to on an average business over the next two to three years horizon, irrespective what the rubber price levels are?

Arvind Poddar, Vice Chairman and Managing Director

I mean basically, we are looking at around 20% EBITDA margin. There is different sizes of the tyres.

Neelesh Dhamnaskar

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And so that is what we are looking at.

Neelesh Dhamnaskar

So, I mean could you tell us this figure in terms of per kg, because see the reason why I am...

Arvind Poddar, Vice Chairman and Managing Director

Per kg is about 32 to 34.

Neelesh Dhamnaskar

32 to 34, because currently you have your...

Arvind Poddar, Vice Chairman and Managing Director

Because that again depends on the prices of my finished product and raw material goes up. So this won't bring me to 19, 20%.

Neelesh Dhamnaskar

Right.

Arvind Poddar, Vice Chairman and Managing Director

So, this is to be misleading rather than that is the percentage of EBITDA margin is much better.

Neelesh Dhamnaskar

Right. So, what so if say tomorrow, if the rubber prices are to go beyond the current level also, but you would target for yourself around 32 at least?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Neelesh Dhamnaskar

Yeah, thanks; fair enough.

And my second question is pertaining to a capacity. You just mentioned that -- 100 more than 100% utilization. So, from our understanding or other what we have discussed in the earlier con calls. In your industry, the optimum capacity utilization are I mean around 80 to 85% seems to be the maximum. How come you are current...

Arvind Poddar, Vice Chairman and Managing Director

Yeah, you are correct, I'll just tell you. What I mean is that achievable capacity.

Neelesh Dhamnaskar

Okay, okay.

Arvind Poddar, Vice Chairman and Managing Director

And then basically installed capacity, we can go up to 78, 79%, of that 78, 79%, it is 100 around.

Neelesh Dhamnaskar

Okay. So what is your, what you call the...

Arvind Poddar, Vice Chairman and Managing Director

Achievable capacity.

Neelesh Dhamnaskar

Installed capacity is how much for that?

Arvind Poddar, Vice Chairman and Managing Director

160,000.

Neelesh Dhamnaskar

Okay. 160; so of that, achievable capacity is...

Arvind Poddar, Vice Chairman and Managing Director

120.

Neelesh Dhamnaskar

Okay. So, 75% is the achievable.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Neelesh Dhamnaskar

And of that 120, now you are operating at, yeah...

Arvind Poddar, Vice Chairman and Managing Director

Around 10,000 metric tonnes per month.

Neelesh Dhamnaskar

Okay. So going by this number and the expected target sales, I mean the sales target you have set for yourself, you would still be falling short of capacity by -- I mean in FY12 itself. So, any plans for that or can...

Arvind Poddar, Vice Chairman and Managing Director

No, we have already mentioned that have already taken debottlenecking and upgrading, which will lift up our achievable capacity by 10,000.

Neelesh Dhamnaskar

Okay.

Arvind Poddar, Vice Chairman and Managing Director

So that we are already in the process and we will get some benefit of that.

Neelesh Dhamnaskar

Okay, fine. And my last question pertains to what your pricing is, but vis-a-vis your competitors and all, you just mentioned in the call that you have taken fairly large price increases. And as compared to your peers your price increases have been much more higher. So, currently with these rounds of price increases, what is the kind of differential, pricing differential, which your products have over your competitors?

Arvind Poddar, Vice Chairman and Managing Director

If you look at the leaders to our prices, there is still a gap of about 30 to 35%.

Neelesh Dhamnaskar

But this is a gap, which we have been hearing since three, four quarters...

Arvind Poddar, Vice Chairman and Managing Director

Basically gradually it is coming down. Earlier it used to be 40%, prior to that, it used to be 45%. Right now it is around 30%.

Neelesh Dhamnaskar

Okay, fine. So, it's around 30% the current differential.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Neelesh Dhamnaskar

Yeah, that's all from my side. Thanks and all the best.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Sabyasachi Paul from Jet Age Securities. Please go ahead.

Sabyasachi Paul

Hello?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

My question is that, currently we have the scenario, wherein domestic rubber prices are actually lower than international rubber prices.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

And given that you export close 90%...

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

Is this benefiting you in any way? And if you were to acquire it mostly from the domestic market...

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sabyasachi Paul

Then the full -- the equity benefit would also be there, 5%.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

So is that happening?

Arvind Poddar, Vice Chairman and Managing Director

No, I mean basically tyre doesn't mean only natural rubber.

Sabyasachi Paul

No, no. I mean...

Arvind Poddar, Vice Chairman and Managing Director

So there are other component also for which we have to use the advanced license. So considering wherever we get the cheaper rubber, we purchase either from international or from India. You are correct, at the moment we are buying from Indian market. And whenever we feel that everything is available which is cheaper, then we shift on the BEPB also.

Sabyasachi Paul

Correct. No, no, I agree with that. What I was trying to understand is given that you're acquiring from the domestic market...

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

And maybe your competition would not have access to this rubber, right, the Indian rubber...

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sabyasachi Paul

So, there you would be benefiting in any way, that is what I am trying to say.

Arvind Poddar, Vice Chairman and Managing Director

No, I mean basically it is a -- from time to time, it keeps on changing.

Sabyasachi Paul

It is a temporary phenomenon.

Arvind Poddar, Vice Chairman and Managing Director

It is only seven days; now, we are seeing that the Indian rubber is cheaper.

Sabyasachi Paul

Okay.

Arvind Poddar, Vice Chairman and Managing Director

So, if you go back earlier, Indian rubber was expensive by Rs. 15.

Sabyasachi Paul

That is true. That's what I am saying. I mean this is a temporary phenomenon, which is there currently.

Arvind Poddar, Vice Chairman and Managing Director

Yes. From time to time, we are getting a benefit also and that is why our EBITDA margin is about 19%.

Sabyasachi Paul

Correct.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sabyasachi Paul

Okay. And just one more thing, for the expansion, Bhuj expansion, has your land already been acquired?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, we have already done the groundbreaking on 28th of January 2011.

Sabyasachi Paul

Okay. And what was the cost...

Arvind Poddar, Vice Chairman and Managing Director

Cost of?

Sabyasachi Paul

Of the land.

Arvind Poddar, Vice Chairman and Managing Director

Land is about 30 crores.

Sabyasachi Paul

Okay. The construction has also started?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, construction and everything is being mobilizing, and I think it will physically start within next 10 days.

Sabyasachi Paul

Okay. Thank you so much.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani

Hello.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

Good afternoon, sir.

Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.

Riken Gopani

Sir, I wanted to understand in the last two, three quarters, what I see is this quarter there was an increase in rubber prices sequentially as well.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

But your average realization per tonne, if I just do the mathematics of your top line by the volumes, it seems to have dropped on a sequential basis. Can you make me understand what's the reason for the same?

B.K. Bansal, Director-Finance

Yeah. There is a marginal drop in the realization. And that is basically because of the currency realization.

Riken Gopani

Okay.

B.K. Bansal, Director-Finance

Okay. It's because the currency realization is different in different period, so that affects the margin and partly it also happens due to the product mix.

Riken Gopani

Okay, okay.

B.K. Bansal, Director-Finance

These are the reasons; otherwise, it is pretty similar.

Riken Gopani

What would have been the impact of currency?

B.K. Bansal, Director-Finance

No, currency when we say it's compared to last year, on overall basis, there is no significant difference.

Riken Gopani

Okay.

B.K. Bansal, Director-Finance

But on month-to-month basis, yes, there would be a difference, which impress the realization.

Riken Gopani

Actually, sir, what I wanted to understand is, on a sequential basis, what would have been the difference in our average rubber cost, I mean Q2 would have been at what level?

B.K. Bansal, Director-Finance

Q2 was...

Arvind Poddar, Vice Chairman and Managing Director

\$3500.

B.K. Bansal, Director-Finance

Q2 was 3500 and Q3 is around 37 to 3800.

Riken Gopani

Okay, Q3 is 3700, is it?

Arvind Poddar, Vice Chairman and Managing Director

37, 3800.

Riken Gopani

Okay, okay. So in that case we haven't had a significant pricing increase in Q3.

B.K. Bansal, Director-Finance

Right.

Riken Gopani

Wanted to understand why would have that happened, price increase not taken in Q3?

Arvind Poddar, Vice Chairman and Managing Director

I mean you are selling your product in the international market, where you cannot adjust the prices month-to-month basis.

Riken Gopani

Okay.

Arvind Poddar, Vice Chairman and Managing Director

You also have to look at all the competitor though we have taken a higher price increase compared to our competitor. And if you look at the increased prices at the beginning of 2010 and mid of 2010, and again we have taken a price increase in January 2011.

Riken Gopani

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And which is to the extent between 20 to 25%.

Riken Gopani

Okay, so the January price increase is about 25%.

Arvind Poddar, Vice Chairman and Managing Director

No, no, between three. What we have done is the January price increase is between -- about 8%. And cumulatively all three price increases are about 20 to 25%.

Riken Gopani

Alright. Because I was trying to understand is it seems you are saying that there is some time lag between -- but generally after a quarter or two you would see that margins would again pick up to the levels or it depends on how rubber prices move.

Arvind Poddar, Vice Chairman and Managing Director

Yes. Yes.

Riken Gopani

It's more because of that.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

Secondly, I wanted to understand when you enter into a contract, so you have this order book of 34,000 metric tonnes, would most of it be fixed price or how would it...?

Arvind Poddar, Vice Chairman and Managing Director

No, I mean majority of the territory, it is the price when we dispatch.

Riken Gopani

Okay. Price is as per your dispatch rate.

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Riken Gopani

Okay. And the other thing I wanted to understand is this, we have booked rubber up till May, is what you've mentioned in the presentation.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Analyst

And you said the average rate is about \$3800, right, or what would be average rate of that?

Arvind Poddar, Vice Chairman and Managing Director

No, no. It is going to move upward gradually.

Riken Gopani

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Yeah. It's a rolling average basis.

Riken Gopani

Okay. So, it is not a price that we have booked, it's a quantity.

Arvind Poddar, Vice Chairman and Managing Director

No.

Riken Gopani

That's the understanding, right?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Riken Gopani

I mean the pricing will be more market determined.

Arvind Poddar, Vice Chairman and Managing Director

No, no. We have already -- we are actually covering natural rubber on a daily basis. So what we are doing is, the average of what we have done over the next -- for our requirement up to May, that's between that \$38,00. But now if you look at the average post in the month of March that will increase slightly, because every day that we are covering, the natural rubber prices are going higher.

Riken Gopani

Sure. But from what -- you're saying, it means up till May, at least the cost remains at 3800 since you have booked it at...

Arvind Poddar, Vice Chairman and Managing Director

The average remains at 3,800. Now it's going to -- since we are consuming the cheaper price natural rubber and the expensive one that we have bought most recently is going to get consumed in March, April, May, that's the reason we've taken this price increases also to offset that increase.

Riken Gopani

Alright, alright. And lastly, this capacity expansion program, which we will do for Bhuj, FY12 most of our interest cost are whatever borrowings we do, it will be capitalized, right? I mean...

Arvind Poddar, Vice Chairman and Managing Director

Yes. As per the requirement of the law, we have to capitalize.

Riken Gopani

Okay. So there will be no change in interest cost at least in FY'12 at least.

B.K. Bansal, Director-Finance

Right, right. Absolutely correct.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Riken Gopani

Alright, alright. Yeah, thanks a lot, sir. That's it from my side.

B.K. Bansal, Director-Finance

Thank you.

Operator

Thank you. The next question is from Sanjay Mittal from Almondz Global. Please go ahead.

Sanjay Mittal

Good evening, sir, this is Sanjay.

Arvind Poddar, Vice Chairman and Managing Director

Good evening.

Sanjay Mittal

Sir, as against the current natural rubber prices of \$5700...

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sanjay Mittal

...your price is around \$3,800.

Arvind Poddar, Vice Chairman and Managing Director

That is average.

Sanjay Mittal

Yeah, average. I understand this is a combination of forward booking as well as inventory management. How much of inventory management it is contributing?

Arvind Poddar, Vice Chairman and Managing Director

I think basically majority of the contract, we physically import and there are certain forward contracts.

Sanjay Mittal

Okay.

Arvind Poddar, Vice Chairman and Managing Director

So we have taken the average of all.

Sanjay Mittal

Right. What I mean to ask is...

B.K. Bansal, Director-Finance

Is about I would say 60% is physical and 40% is forward.

Sanjay Mittal

Okay. And my next question, sir, other raw materials are also patrolling...

B.K. Bansal, Director-Finance

Yeah.

Sanjay Mittal

In view of the current situation in Egypt...

B.K. Bansal, Director-Finance

Yeah.

Sanjay Mittal

There is a rider expectation of crude going up.

B.K. Bansal, Director-Finance

Yeah.

Sanjay Mittal

And which may increase the prices of your other material also.

B.K. Bansal, Director-Finance

Yes.

Sanjay Mittal

So, for you...

Arvind Poddar, Vice Chairman and Managing Director

So there also we are very closely monitoring and wherever we are feeling that the prices are going to go up, certain raw material we have covered up to June, certain we have covered up to May, certain we have covered up to April, so that's the policy.

Sanjay Mittal

Okay. It means the kind of forward booking facility, which is available for natural rubber is available for other inputs also.

Arvind Poddar, Vice Chairman and Managing Director

Basically, we physically import or we keep the stock.

Sanjay Mittal

Okay, thank you.

Arvind Poddar, Vice Chairman and Managing Director

Yeah, thank you.

Operator

Thank you. The next question is from the Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah

Good evening, sir.

Arvind Poddar, Vice Chairman and Managing Director

Good evening.

Chirag Shah

Just wanted to understand, one, what is the kind of price hike that you announced. I just missed that point.

Arvind Poddar, Vice Chairman and Managing Director

8%.

Chirag Shah

For the quarter ending March?

Arvind Poddar, Vice Chairman and Managing Director

Beginning of...

Chirag Shah

January?

Arvind Poddar, Vice Chairman and Managing Director

Current January.

Chirag Shah

January 8%. And this is sufficient for you to cover your costs?

Arvind Poddar, Vice Chairman and Managing Director

To a greater extent.

Chirag Shah

To a greater extent. Okay. And second thing is just trying to understand on the European side, how the demand is shaping up for you - industry because is it at a risk that there could be some discounting reappearing in this market?

Arvind Poddar, Vice Chairman and Managing Director

We are not seeing that at the moment. The demand is still very strong.

Chirag Shah

And its across, it's strong.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Chirag Shah

That risk pertains then especially in the case, where you have tied down your requirements for rubber, that could be a bigger issue for you or the only bigger -- only key issue for you.

Arvind Poddar, Vice Chairman and Managing Director

See basically, I mean at the moment across the world, there is demand, which is coming up from OEMs from replacement. So, I don't think that there will be any risk on the flow down risk to us.

Chirag Shah

Okay, fair enough. And one thing is it possible for you to include in your presentation the raw material breakup that is generally you had given last quarter from next time onwards?

Arvind Poddar, Vice Chairman and Managing Director

We have already...

B.K. Bansal, Director-Finance

This particular presentation is only for the quarter and the analysts.

Chirag Shah

Okay.

B.K. Bansal, Director-Finance

In the main presentation, we already have that.

Chirag Shah

In the...?

B.K. Bansal, Director-Finance

Main presentation, the investor presentation.

Chirag Shah

But that doesn't pertain to current quarter, right?

B.K. Bansal, Director-Finance

That's the only quarter. We'll update that in...

Chirag Shah

Okay, great, great. That's it. Because that is very nice data that you shared.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Chirag Shah

Thank you.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you.

Operator

The next question is from Sahil Shah from HSBC AMC. Please growth ahead.

Analyst

Yeah. Good afternoon sir.

Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.

Analyst

I have two questions. One was on the price increases; you mentioned that the price increase were in the range of 20 to 25%. If we look at the realizations on a per kg basis, it's gone up just 10% odd over either this quarter or if we look at the entire three quarters put together. So what accounts for the difference. We have very huge shift in either product mix or in currency impact?

Arvind Poddar, Vice Chairman and Managing Director

Mainly I would say it's a currency impact.

Analyst

Okay, but that accounts for the remaining 10-15 odd percent?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Analyst

Okay. And second question was on the Bhuj greenfield capacity that will come in. 90,000 metric tonnes is what will come up in possibly December of '12?

Arvind Poddar, Vice Chairman and Managing Director

December of the entire -- because the capacity will be available gradually and -- to the peak it will take about 12 months to 18 months, because we are into the specialty tyres.

Analyst

So, can you just mention what -- how this will be at least phased in the entire renew capacity?

Arvind Poddar, Vice Chairman and Managing Director

I mean I would say, it's in FY13, we will be getting something around 20,000 to 25,000.

Analyst

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And then it will be -- gradually, it will be next year, it should be somewhere around 60,000, 65,000 and then we will get the full in FY14.

Analyst

In FY14.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Analyst

Alright, sir. That's enough. Thanks.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from Disha Shah from Anvil. Please go ahead.

Analyst

Hello?

Arvind Poddar, Vice Chairman and Managing Director

Hello. Yes.

Analyst

I just wanted to ask -- does tyres have synthetic rubber or natural rubber, more of synthetic?

Arvind Poddar, Vice Chairman and Managing Director

No. Our entire product line natural rubber is more because it's specialty as well as the slow moving on.

Analyst

Okay. And what is the difference between natural and synthetic rubber price?

Arvind Poddar, Vice Chairman and Managing Director

Natural rubber at the moment, if you look at the international market, it is about \$5700 per metric tonne, whereas there are different category of synthetic rubber, which is between \$3,200 to 4,200, \$4,300.

Analyst

Okay sir. Thank you.

Operator

Thank you. The next question is from Bhavin Chheda of Enam Holdings. Please go ahead.

Bhavin Chheda

Hi. Yeah sir, how much your spending on CapEx for debottlenecking and for the Bhuj plant?

Arvind Poddar, Vice Chairman and Managing Director

Debottlenecking 200 crores.

Bhavin Chheda

Yeah.

Arvind Poddar, Vice Chairman and Managing Director

And for the Bhuj plant, it's about 1200 crores.

Bhavin Chheda

1200. And how much you've already spent till date on this project?

Arvind Poddar, Vice Chairman and Managing Director

Out of 200 crores, we have already spent about 70 crores.

Bhavin Chheda

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And Bhuj, we have already spend something about 60, 65 crore.

Bhavin Chheda

Okay, thanks a lot sir.

Arvind Poddar, Vice Chairman and Managing Director

Thanks.

Operator

Thank you. The next question is from Saurabh Das from Sundaram Mutual Fund. Please go ahead

Saurabh Das

Thanks for the opportunity, sir. My first question pertains to the contracts, which you have mentioned, which is typically on a rolling basis. So, we do not take any call on the future rubber prices, but follow a normal three months rolling hedge, or do we also try and time our hedges?

Arvind Poddar, Vice Chairman and Managing Director

No. I could not get your questions?

Saurabh Das

My question pertains that for instance today if rubber is at 5,700.

Arvind Poddar, Vice Chairman and Managing Director

Yeah

Saurabh Das

We do not take a call whether rubber will be going up or going down, but we will be -- we continue to take the three month forward hedges or we do take a call and wait for the prices?

Arvind Poddar, Vice Chairman and Managing Director

We do take a call.

Saurabh Das

Okay. So, which means that in April, as of now, our hedges are open or we have already locked in rubber at 5700?

Arvind Poddar, Vice Chairman and Managing Director

I mean it's continuously we are buying.

Saurabh Das

Okay.

Arvind Poddar, Vice Chairman and Managing Director

At the moment like Indian rubber is cheaper. So we are buying Indian rubber.

Saurabh Das

Which would be at what rates sir?

Arvind Poddar, Vice Chairman and Managing Director

Currently, we are buying at Rs. 225 a kg in Kerala.

Saurabh Das

Okay. Okay. Right which means that there is typically around a 40 to 45% increase to the current 3Q numbers, which you shared at 3800 per dollar.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Saurabh Das

So, if I just do this maths of around 30% of natural rubber is your total cost, so there is an cost escalation element of around 10 to 12%, which means that we have to decide on this pricing action in the next two to three months.

Arvind Poddar, Vice Chairman and Managing Director

Yes. That we have already indicated to all our buyers.

Saurabh Das

Okay, okay, okay. So, do you get us sense talking to your distributors would also have a pulse on your competitions likelihood of taking a price hike. Are you getting a similar sense that there is a price hike from them also?

Arvind Poddar, Vice Chairman and Managing Director

Yes. Because everybody has to. There is no choice.

Saurabh Das

Right, right.

Arvind Poddar, Vice Chairman and Managing Director

From our side, we are producing in India and the material reaches after 45 days.

Saurabh Das

Right.

Arvind Poddar, Vice Chairman and Managing Director

So even if they take a call after 30 days.

Saurabh Das

Right.

Arvind Poddar, Vice Chairman and Managing Director

But they will have to take.

Saurabh Das

Correct. Sir, my other question pertains to the profitability of your, I know that they do not report the listed, none of their listed entities report this part of the business separately.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Saurabh Das

But given that you are in the market and you know broadly what kind of profits are there in the business for competition as well. Is it likely that they are also in that 12 to 15% odd profit margins?

Arvind Poddar, Vice Chairman and Managing Director

No, at the moment, they are at a much lower.

Saurabh Das

Will it be single-digit number?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Saurabh Das

In this line of business, in OTR business?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Saurabh Das

Okay. Which kind of restricts there ability to take absorb more prices?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Saurabh Das

And one data point, you mentioned in your last presentation, your total distributors at around 200 for FY10. What would be the numbers right now?

Arvind Poddar, Vice Chairman and Managing Director

It has marginally gone up by, I would say is there are some four or five distributors has been added.

Saurabh Das

Okay. Because given that you are expanding aggressively in North America. So, I was just looking at whether there would be any substantial increase. So, we will see more price hikes if rubbers remains at this level in, say, the next two or three months.

Arvind Poddar, Vice Chairman and Managing Director

Yeah. Our target is between April to June.

Saurabh Das

Great. Thanks, sir and all the very best.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Operator

Thank you. The next question is from Shefali Doshi from KJMC Capital Market. Please go ahead.

Shefali Doshi

Sir, as far as your different segments are concerned, segments like OEM, offtake and replacement. So how is it specifically distributed geographically? I mean do you have demand from say OEM and offtake from particular region or it is equally spreaded out on the contribution of the revenue they are having?

Arvind Poddar, Vice Chairman and Managing Director

Basically, OEM we are supplier to almost all the major OEMs across the world.

Shefali Doshi

Okay. So I mean whatever OEM offtake replacement you see the demand for them equally across all the areas geographically. It is not...

Arvind Poddar, Vice Chairman and Managing Director

At the moment, OEM demand is much, much higher.

Shefali Doshi

Okay. And as you mentioned at that gap of -- pricing gap of 30% is there between you and the competitors...

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Shefali Doshi

...which has come down from earlier like 40, 45%, 50%. So how do you see the gap going forward. Is it likely -- are you intending to maintain this gap, improve this gap or is it likely to reduce based on the...

Arvind Poddar, Vice Chairman and Managing Director

Gradually, as we are taking slightly higher price increase...

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

So, I would say that's going to be further reduced, I would say within next two to three years, the gap will be further reduced by 5%.

Shefali Doshi

Okay. And, sir, one more question, last question is on the basis of geographical breakup whatever you have given to me, it seems that you don't have any sales in the domestic markets. So...

Arvind Poddar, Vice Chairman and Managing Director

We do have.

Shefali Doshi

That is Asia, okay, Asia is...

Arvind Poddar, Vice Chairman and Managing Director

No, Asia includes also India.

Shefali Doshi

Correct, okay. So, sir, I mean why is it like the overall contribution from Indian markets or Asian markets is on -- like very minimal. So, how do you see increase in the share of Indian revenues, domestic revenues?

Arvind Poddar, Vice Chairman and Managing Director

Basically, at the moment, we are very, very short of the finished product. Once our Bhuj facility will be in operation, more material

will be available.

Shefali Doshi

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And that will give us opportunity to further penetrate in the Indian market, which is again a growing market.

Shefali Doshi

So, sir, where do you the share coming from the Indian market after Bhuj facility is commenced?

Arvind Poddar, Vice Chairman and Managing Director

I would say that after the Bhuj market, because our overall production capacity will go up...

Shefali Doshi

Yeah.

Arvind Poddar, Vice Chairman and Managing Director

...from 130,000 to 220,000.

Shefali Doshi

Correct.

Arvind Poddar, Vice Chairman and Managing Director

Of that 220,000, I would say it's around between 10 to 15%.

Shefali Doshi

Okay, and currently it is how much, sir?

Arvind Poddar, Vice Chairman and Managing Director

Currently, including the OEM sales it is about, around 8 to 7%.

Shefali Doshi

8 to 7%.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Shefali Doshi

Okay, fine sir. Okay. Okay thanks.

Arvind Poddar, Vice Chairman and Managing Director

Thanks.

Operator

Thank you. [Operator Instructions]

The next question is from Sonaal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli

Sir, you had just mentioned that your production would be 1.25 to 1.3 million tonnes in 2012, and that would be the capacity, which would also come to you by June '11. Now since you will be missing one of the quarters, would it mean that you would working more than 100% capacity utilization that's how you reached to 1.3 target for 2012?

Arvind Poddar, Vice Chairman and Managing Director

I mean we are -- everyday, we are working on that. First, it is not million, it is 125,000 to 130,000. And gradually as we are doing everyday, some engineering and increasing, so it will be somewhere around 125,000 to 130,000.

Sonaal Kohli

Sir, secondly, you mentioned that about 20, 25,000 extra capacity will be available in 2013.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

Can you operate as soon as the capacity comes up or this goes through -- it takes a while to stabilize before you are able to...

Arvind Poddar, Vice Chairman and Managing Director

Yes. That will be a gradual process, because it's not a simple passenger truck, bus tyre; it is all specialty tyres. We would not like to take any risk. And as our tyres are going across the world, so it has to be quality, 100% quality sure. So, it will be gradually we will be taking this.

Sonaal Kohli

Sir, it's fair to assume that in 2013, you'll have a very marginal increase over 2012, because even this 20, 25,000 tonnes would be available only -- a small part of this -- only a portion of this will be available at later half of the year.

Arvind Poddar, Vice Chairman and Managing Director

Yes. In 2013, there will be about 25,000 additional capacity, which will be available.

Sonaal Kohli

Okay. But you will be able to use only a small part of this 20, 25.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Sonaal Kohli

Sir, your Euro rate you mentioned...

Arvind Poddar, Vice Chairman and Managing Director

No, no, we will be able to use the total capacity that we will be adding will be about 90,000 and out of that, we will be able to use about 25,000.

Sonaal Kohli

I see. So, the entire capacity comes over in 2013. It's a question of usage, which you're referring to?

Arvind Poddar, Vice Chairman and Managing Director

Yes. The main reason for that is we have so many different sizes and every size would need to be proved in the new facility. So that process is a time consuming process; and with each passing day, we will be proofing all the sizes.

Sonaal Kohli

Sir, as far as your -- you mentioned that euro rate for next year is 63 to 64, I was just going through the currency euro rate for last many months. So, for the average of Q1 of last year and average of Q2 of last year, the euro rate was 58.36 and 59.67. I was wondering you know how you're able to end it at 63, 64?

B.K. Bansal, Director-Finance

This is the full year's average.

Sonaal Kohli

For 2012 or for 2011?

B.K. Bansal, Director-Finance

Sorry?

Sonaal Kohli

Is this for 2012, sir?

B.K. Bansal, Director-Finance

This is for 2011, and for 2012 also, it is almost at the same level.

Sonaal Kohli

Sir, but considering the euro hasn't gone to 63 level for last nine, 10 months how are you able to hedge it at that rate?

B.K. Bansal, Director-Finance

It has been, because if you see the dollar lag, which is moving at a substantial premium than the spot, so even if you take that today's spot rate, it is coming to Rs. 62 or so -- 62.5. And if you include the premium, it is going up to 65. So time and again, we get the opportunity in the market to book at the, I'll say in a very different level and sometimes we get a decent level.

Sonaal Kohli

You said that the premium, the forward premium is this much; is that what you are saying?

B.K. Bansal, Director-Finance

No, this is including the forward premium.

Sonaal Kohli

Okay. So it's a very substantial forward premium. Hello?

B.K. Bansal, Director-Finance

Yeah, yeah.

Sonaal Kohli

And sir, do you capitalize the interest cost and do you plan to capitalize interest cost for the brownfield and the greenfield?

B.K. Bansal, Director-Finance

If the project is commissioned, we will capitalize it.

Sonaal Kohli

Okay. And sir, in June-July last year, when you took a price increase, what was the quantum of price increase?

Arvind Poddar, Vice Chairman and Managing Director

It was about 6 to 8%.

Sonaal Kohli

6 to 8%, and which would have also come gradually only.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Sonaal Kohli

Thank you so much.

Operator

Thank you.

Ladies and gentlemen, that was the last question. I would now like to hand over the conference back to Mr. Bhushan Gajaria for closing comments.

Bhushan Gajaria

Thank you, Marina. Thanks to all the participants, and thanks particularly to the management of Balkrishna Industries. Sir, would like to make any closing remarks?

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Bhushan Gajaria

Thanks a lot.

B.K. Bansal, Director-Finance

Thanks everyone.

Operator

Thank you.

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

Thank you.