

## Conference Call Transcript

**Balkrishna Industries**

**Q3FY14 Results**

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### *Corporate Participants*

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**Mr. B. K. Bansal**  
*Director, Finance*

## Questions and Answers

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**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY14 Earning Conference Call of Balkrishna Industries Ltd hosted by Edelweiss Securities Ltd. 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. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth of Edelweiss Securities Ltd, thank you and over to you Madam.

**Shradha Sheth:** On behalf of Edelweiss let me welcome you all to the Q3 FY 14 Earnings Call of Balkrishna Industries. From the management today we have Mr. B. K. Bansal – The Director of Finance, without further ado I will hand over the call to Mr. Bansal for his initial comments, thank you and over to you Mr. Bansal.

**B. K. Bansal:** Good afternoon everyone, I welcome you all to the post results earnings call of our company, I am joined by SGA – our IR Advisor.

Now first I would like to talk about the financials for the quarter under consideration. Our sales volume for the current quarter has been 33,901 metric tons as against 30,125 metric tons in the same quarter during previous year, showing a growth of around 13%, with this our 9 month sales volume for the period ended 31<sup>st</sup> December, 2013, stands at 1,02,242 metric tons and now we are confident of achieving our annual volume guidance of 1,40,000 metric tons. Our revenue for the quarter stood at Rs. 884 crore as against Rs. 705 crore during previous year, reflecting a growth of around 26%. The EBITDA for the above period was at Rs. 229 crore as against Rs. 156 crore, showing a growth of 47%.

The net profit for the quarter was at Rs. 124 crore as against Rs. 74 crore during previous year, showing a growth of 68%. We have been able to maintain our margins at a healthy level mainly on account of better currency realization and subdued raw material prices. Now coming to raw materials, the natural rubber prices have been moving in a broad range in the past few months and are expected to remain stable. We are maintaining a natural rubber inventory of around 2 months. The prices of other raw materials are more or less stuck in a range.

On Bhuj plant, as we have already started production at our Bhuj plant, while the residual project activities are going on. Till December 2013, we have incurred CAPEX of around Rs. 2300 crore against the total estimated project cost of Rs. 2800 crore. The total capitalization as of December 2013 stands at Rs. 970 crores. Post Bhuj expansion, the total achievable capacity of the company would reach to 300,000 metric tons.

Now I would like to give you some flavor on the prevailing market conditions, we are witnessing a strong traction in our business across all geographies and

segments. We are witnessing a good demand in the current quarter and we expect the same to continue in the subsequent quarters. We discussed in the last call that we expect FY15 and FY16 to be much better as compared to FY14. We still feel that there are lots of opportunities in our business and we are making all efforts to leverage the same in every possible manner. As per some recent industry data, the world wide mining machinery market is forecast to expand 8.6% per year till 2017, which will mainly be driven by demand from large developing markets such as Brazil, China and India. Additionally, machinery demand will expand in other nations with large deposits of industrial materials including Australia, Chile, Indonesia and Peru. The company is well poised to gain from such opportunities in the coming year post Bhuj expansion, the company will have incremental capacity of around 40,000 metric tons in the mining segment to grab such opportunities.

The Industrial Construction and Mining segment are also looking promising as world population continues to grow. Now I would like to touch upon hiving of our paper and textile processing business. For quite some time, the management has been receiving suggestion from the various stakeholders to unlock the value of tyre business of the company by hiving of the other two businesses, paper and textile processing, which are not only very small in size but has got no fidelity with the main business of the company.

I am happy to share with you that the management took cognizance of such suggestion and passed necessary resolution in the recently held board meeting to hive off both the businesses of the company. An appropriate scheme of arrangement under section 391 to 394 of the Company's Act 1956 has been framed with the help of experts which broadly entails three steps; under step number one amalgamation of Balkrishna Paper Mill Ltd. will be done with Balkrishna Industries Ltd. Then there will be a transfer of certain assets and liabilities of the company together with investment in Balkrishna Synthetic Mill Ltd. on a going concern basis from Balkrishna Industries Ltd, to a newly formed company for this purpose in the name of Nirvikara Paper Mills Ltd. at book value and subsequent listing of Nirvikara Paper mills Ltd. on stock exchange. The consideration of transfer of such assets and liabilities to Nirvikara Paper Mills Limited will be settled by way of issue of shares of Nirvikara Paper Mills Limited of Rs. 10 each and the shares will be issued of Nirvikara Paper Mills Limited of rupees 10 each, one share for every nine share of Balkrishna Industries Limited of Rs. 2 each at nil consideration. The entire process is likely to be completed in the next 6-9 months' time period.

That is all from my side at this moment. I now open the floor for question and answer session. Thank you.

**Moderator:** Thank you very much. Ladies and Gentlemen we will now begin the question and answer session. First question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

**Basudeb Banerjee:** Few questions, if I see QOQ price increase, so it is more or less attributable by genuine price increase or currency moves?

**B. K. Bansal:** No it is purely currency moves because in this market where raw metal prices are down, there is no occasion to take any price increase.

**Basudeb Banerjee:** And Sir going ahead, with slight bit of recovery been seen at the end on that channel. How do you see the pricing environment down the line compared to the other BSnet like mission?

**B. K. Bansal:** See now in this atmosphere, the price increase is completely ruled out. On the contrary, there will be a case for some price corrections, reductions, if raw material price softens. So that may happen.

**Basudeb Banerjee:** On a QOQ basis, I can see your raw material basket more or less remaining flat?

**B. K. Bansal:** Yes more or less. I think in this current quarter also it will be around the same number.

**Basudeb Banerjee:** Sure Sir. And you made the statement that overall Bhuj project is costing around 28 hundred crores.

**B. K. Bansal:** Yes.

**Basudeb Banerjee:** So at current juncture, how much of that is attributed by the weaker rupee?

**B. K. Bansal:** It is almost Rs. 350 crore to Rs. 400 crore.

**Basudeb Banerjee:** So hypothetically, if say rupee moves back to 55 ...?

**B. K. Bansal:** Yes, then this may come down to 2400 to 2500 crores.

**Basudeb Banerjee:** And originally the project was when we searched for a 90 000 tons which got later on expanded to 140.

**B. K. Bansal:** 120 and then to 140, because as we start the activity, then we come across so many things and we realize that if we do it or include it in the project, then it would make more sense from the overall viability perspective.

**Basudeb Banerjee:** Sure Sir. And how the new client additions going on Sir as there was much expectation of addition of a big client down the line?

**B. K. Bansal:** Yes that is an ongoing exercise and it is continuously happening as we grow. So it is a natural thing which continues to happen.

**Basudeb Banerjee:** So broadly what kind of guidance we can expect for FY15 volume growth?

**B. K. Bansal:** For FY-15, at this juncture, I can say we should be able to achieve somewhere between 160,000 to 165,000.

**Moderator:** Thank you. Next question is from the line of Mr. Jaisinh Suchak from JM Financial. Please go ahead.

**Jaisinh Suchak:** Just a couple questions: One is, you said the raw material prices have been in the narrow band than the natural rubber prices, last quarter was around \$ 2700. Is that significantly changed?

**B. K. Bansal:** If you ask me, the current price it is around \$2300-2400 per metric tons. It is the change which has happened between the last quarter and

the current quarter.

**Jaisinh Suchak:** Two months inventory is what we are keeping. You said there is no price hike during the quarter; but we have not declared any cuts also, right?

**B. K. Bansal:** Yes, so far not.

**Jaisinh Suchak:** In terms of the CAPEX which you spoke about, in terms of the expansion, we have 4000 MT which is more about de bottle necking. Is that the case? Because I think there is 4000 tons in the existing plants also?

**B. K. Bansal:** Yes basically the capacity at the 3 existing plant is 160,000 and we were earlier talking about 156, 000. So this 4000 addition is the outcome of the de bottle necking.

**Jaisinh Suchak:** Okay. In terms of that 20,000 extra, at Bhuj also is something which we have been able to

**B. K. Bansal:** Yes that is an afterthought; we have made some changes in the overall project outlook.

**Moderator:** Thank you. Next question is from the line of Mr. Abhijit Dey from BNP Paribas Mutual Fund. Please go ahead.

**Abhijit Dey:** What is the production numbers? Sir if you can tell me.

**B. K. Bansal:** Sure. Production for the current quarter has been 33,590.

**Abhijit Dey:** Okay and you can give me a break up between the various geography, sir? Europe, U.S., rest of the world and India?

**B. K. Bansal:** Europe is same a round 50%, US is around 23-24% and the balance is from the rest of the world.

**Abhijit Dey:** India will be how much Sir?

**B. K. Bansal:** India is 12%.

**Abhijit Dey:** So comparing Europe and U.S., where do you think the market basically is getting better or?

**B. K. Bansal:** See we are getting a good response from across the geographies. So it is not that one geography is doing better and the other is not doing better. So broadly the ratio remains same. There has not been any significant change in the geography wise index of our sales.

**Abhijit Dey:** And in terms of order book Sir, how is it currently?

**B. K. Bansal:** See now this order book concept; I think we should keep it aside because this was relevant 2 years ago when we had a small capacity. Now we have sufficient capacity in place. So I do not think we will have a huge order back log kind of position in the near future. But just to answer this question, it would be around 2 months kind of monthly sales.

**Moderator:** Thank you. Next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

**Jiten Doshi:** Are we seeing some sort of green shoots in our developed market

where we believe these numbers could be slightly higher than 160,000 tons which you are forecasting?

**B. K. Bansal:** No.

**Jiten Doshi:** So you are not getting any early signs of volumes trying to be a little better?

**B. K. Bansal:** Not at this moment.

**Jiten Doshi:** And rubber prices being where they are, are we having any kind of a little change in our policy for holding inventory?

**B. K. Bansal:** No. That does not make the case because we feel that raw material prices will remain subdued for medium to a longer time period.

**Jiten Doshi:** So, the forecast is softer prices?

**B. K. Bansal:** Yes.

**Moderator:** Next question is from the line of Mr. Abhijeet Vora from IFCI Financial Services. Please go ahead.

**Abhijeet Vora:** Sir this incremental 20-25K, can you just throw some light like which sectors will be contributing to this incremental growth?

**B. K. Bansal:** This will be basically the mixture of all, but mainly it will go towards mining.

**Abhijeet Vora:** So, a ball park number like how much mining will be contributing? Just to understand, how this mining segment is growing and how the numbers may look like going forward?

**B. K. Bansal:** No, mining segment as I said in my opening remarks that the mining machinery segment is growing at the rate of around 7-8% and there is already a vacuum in the market place, so we will have a lot of opportunity to supply and deliver those kind of tyres.

**Moderator:** Next question is from the line of Mr. Nishant Vyas from ICICI Securities. Please go ahead.

**Nishant Vyas:** Sir, my first question is on the demand side, even yesterday the US data got impacted significantly by the extreme winter, what is the sense that you are getting, how has the winter impacted your crop cycles in US, at least in the Northern and the Central region? What is the feedback?

**B. K. Bansal:** See, so far we have not got any negative feedback. The market has been very stable and steady kind of delivery has taken place in the last quarter, in fact, we are getting good enquiries from the dealers and the OEs in the current quarter and we are seeing a good visibility in the subsequent quarters.

**Nishant Vyas:** Ok, because there were some reports that there might be another drought that might be happening, so I just wanted to clarify. My second question is on sir, could you help us understand in FY16, what would be interest payouts or the loan payouts that we would be doing? If I look at the annual report your first bullet starts from FY16, am I right?

**B. K. Bansal:** Yes. So, in that year the repayment would be \$58 million so which roughly works out to Rs. 350 crore.

**Nishant Vyas:** So, which right now is hardly anything in FY14?

**B. K. Bansal:** Yes.

**Nishant Vyas:** What would be also the kind of trend, you would have the complete Bhuj substitute will start getting depreciated by that time?

**B. K. Bansal:** Yes full depreciation would reflect in FY15/16 only.

**Nishant Vyas:** So, what would be that roughly as per your understanding?

**B. K. Bansal:** Total depreciation should look like around Rs. 250-270 crore.

**Nishant Vyas:** In FY16, so Rs. 270 crore and the interest cut on Rs. 300 crore.

**B. K. Bansal:** Interest would be around Rs. 50-55 crore.

**Moderator:** Next question is from the line of Mr. Saurabh Das from Tata Mutual Fund. Please go ahead.

**Saurabh Das:** Sir just wanted to understand on the mining segment, so while we have been probably into the segment early as well but post this expansion, are we directly going to supply to miners?

**B. K. Bansal:** Yes of course.

**Saurabh Das:** If you can explain how the selling process happens to miners and do you actually need a person to always monitor the performance of your tyres replacement?

**B. K. Bansal:** Yes, we have people always on the field and who interacts with miners and there is another community called service provider, who basically caters to 2-3 miners, so in this mining business generally the sales happened either to the miners or to the service provider and our sales team regularly interacts with both the community regularly and based on the feedback we take the necessary access to meet their requirement.

**Saurabh Das:** So, in this case the logistics works as if you straightaway supply to the miners without an intermediary in between?

**B. K. Bansal:** Yes, absolutely correct.

**Saurabh Das:** And then you would also have to get into an annual maintenance contract or ... ?

**B. K. Bansal:** No that we will not do. There are different service providers, who takes care of their equipment and do the maintenance work for their equipments.

**Saurabh Das:** So, let us say, you then provide a particular number of hours as a guarantee for your tyres?

**B. K. Bansal:** Yes.

**Saurabh Das:** Would you have any idea what is the contracts typically you would have entered with a miner, say per tyre, what is the hours like?

**B. K. Bansal:** No, it all depends, it is very subjective thing.

**Saurabh Das:** And how large is this as a proportion of sales right now, supplies to miners directly?

**B. K. Bansal:** It is very small at this moment.

**Saurabh Das:** In the last call you were mentioning that your expectation of 15% volume growth over FY14 hinges on the fact that even if your existing segments remain as they are, at 0% growth, your new initiative would take you to that 15% growth? Now that your 4<sup>th</sup> quarter guidance is up to 38,000 and I am sure that is largely from your existing businesses, so then why are you not talking about more than 1,60,000 because if I just extrapolate 38,000 then you are reaching somewhere around 1,55,000.

**B. K. Bansal:** Yes even when I say this 38,000 number for the current quarter, I have already factored in the incremental opportunity which I discussed in my last call. So, it is a mixture of everything.

**Saurabh Das:** So, you are saying that those initiatives are already starting to pay off in the current quarter, and for FY15, if you can remind me of the depreciation and interest assumptions?

**B. K. Bansal:** For FY15, the depreciation should be around Rs. 200 crore and interest would be around Rs. 40 crore.

**Saurabh Das:** And it is, the interest rate is Libor + 250 is it?

**B. K. Bansal:** Yes, Libor+250, correct.

**Saurabh Das:** Okay and what should be the tax rate; will there be any change in the tax rate?

**B. K. Bansal:** No, tax rate is full, 34%.

**Moderator:** Next question is from the line of Mr. Paras Nagda from ENAM Holdings. Please go ahead.

**Paras Nagda:** I wanted to know, is there any technological change with respect to pneumatics converting into solid tyres and what is the kind of rate of change that you are seeing for this conversion? And will this lead to higher tonnages and probably higher realizations?

**B. K. Bansal:** See, definitely different technology is required for solid tyres and the other kind of pneumatic tyres. It depends what kind of changes we are making and accordingly the cost parameter will be determined. It is very difficult to answer your question in any number saying that if I do this, this would be the cost involved; it is a very subjective thing.

**Paras Nagda:** Is there a shift to solids from pneumatics?

**B. K. Bansal:** No.

**Paras Nagda:** So, this is just an additional product which we will be introducing in our new facility, is that correct?

**B. K. Bansal:** Not in a big way, but some capacity will be for low solid tyres. It will be very negligible, very small quantity.



**Paras Nagda:** And sir, what is the kind of change that you are seeing from bias to radial, in your product category?

**B. K. Bansal:** Yes that is happening but not at the same pace at which it is happening in the commercial vehicle space. Like for example in agriculture, the rate would be say 40-50%, in mining it is more around 50-60%. So, for different kind of tyres the pace is different.

**Paras Nagda:** And sir last question from my side is, how are we progressing on our OEM strategy to increase the sales and eventually?

**B. K. Bansal:** It is doing well. The OEM sales stand at around 19-20%, so it is completely to our expectation and into our set targets.

**Paras Nagda:** And sir in the next 2-3 years you will see this 19-20% more to a higher number?

**B. K. Bansal:** Not very higher number, in next 3 years' time frame this 20 might go to 30%.

**Moderator:** Next question is from the line of Mr. Mithun Soni from GeeCee Investments. Please go ahead.

**Mithun Soni:** Just one query with respect to the Bhuj capacity, all of it will be radial tyres or there will be combination?

**B. K. Bansal:** No it will be a mixture of both, bias as well as radial. Radial component would be around 40%.

**Mithun Soni:** The incremental growth what we are targeting or the incremental growth which is coming, would you say it is coming from the businesses like mining, the OEM segment and how much is the organic on the base of last year?

**B. K. Bansal:** No, everything is organic only and it would be a mixture of all. So, when the growth will come from the existing customer base, from the OEs, new OEs and new product line.

**Mithun Soni:** And sir the third one was with respect to during the quarter, would you be able to quantify like how much was the currency benefit of the total realization?

**B. K. Bansal:** Right now I do not have those numbers readily available with me; you can take it from me separately.

**Moderator:** Next question is from the line of Mr. Jay Kale from IDFC Securities. Please go ahead.

**Jay Kale:** Sir my first question was regarding your market share, how is your market share moved in your agriculture and OTR segments? Has there been any gain or you have just been growing in line with the market and the second would be in terms of pricing, going forward has your competitors taken any price reduction and hence you would be following or the industry pricing is still constant and there would be some pricing action taken from the corporators going forward?

**B. K. Bansal:** See in the recent past, I think to my knowledge nobody has taken any price correction but the way the raw material prices are behaving, probably it may make a case for price reduction. We will have to take appropriate call considering all the facts and other relevant things? Now coming to the market share, I can only tell you about our overall market share in OHT segment which is around 4%. The total OHT industry is around \$15 billion and at current dollar rate it works out to 4%, but otherwise it is around 5-6%.

**Jay Kale:** Okay. Sir considering in the last 2-3 years, have been very benign for the agricultural OEM tyres. Now going forward in the next 2-3 years when that replacement cycle comes in, do you see a relatively lower growth rate for the industry and you being predominantly in the replacement segment you could see lower yields and hence your OEM segment would play a bigger role?

**B. K. Bansal:** See, definitely our OEM will have a good amount of say in our overall performance and which has already increased from 13% to currently 19-20% and as I said that, it is likely to increase to say 30%. So definitely it will have some say. But at the same time our pie in the overall replacement segment will also continue to grow.

**Jay Kale:** But how are you seeing the replacement industry growing? What is the replacement cycle typically?

**B. K. Bansal:** See replacement cycle is different for different kind of tyres. Say for example, for agriculture tyres it is 3-4 years. For industrial and construction tier it is one and half to two years. And for mining tyres it is around 1 year. Again it depends on the usage of the tyres, how extensively one is using the tyre? This is a general ball park guidance I can share with you.

**Jay Kale:** Okay. What is the industry growth rate target?

**B. K. Bansal:** If you ask me, the industry growth rate is around 5-6%.

**Jay Kale:** Okay. Sir what would be your hedge rate currently?

**B. K. Bansal:** For the current financial year, it is between 75-76.

**Jay Kale:** Okay, for FY15?

**B. K. Bansal:** For FY15 it is around Rs. 82.

**Jay Kale:** Okay. So you are covering one year?

**B. K. Bansal:** Yes we cover one year in advance.

**Moderator:** Thank you. The next question is from the line of Mr. Ravi Shenoy from Motilal Oswal Securities. Please go ahead.

**Ravi Shenoy:** I wanted to get some idea about you mix in terms of Agriculture Industry and Mining?

**B. K. Bansal:** See agriculture is around 60-65% and Industrial Construction and Mining put together is around 35%. And balance 5% is for ATV and lawn and garden kind of small applications.

**Ravi Shenoy:** Since most of the major CAPEX is behind us, would that assumption be correct Sir?

**B. K. Bansal:** Yes.

**Ravi Shenoy:** Okay. Then would it be fair to assume a payout rise?

**B. K. Bansal:** Too early to say anything on this front because next year onwards our repayment is starting. We also have to take care of that important thing, already lined up.

**Ravi Shenoy:** Okay. Just wanted to get some idea about on your current debt profile?

**B. K. Bansal:** Total debt would be around Rs. 2400 crore at the current rate. And net debt would be around Rs. 2100 crore.

**Ravi Shenoy:** And this 2400 crore would be divided into rupee and dollar loan Sir?

**B. K. Bansal:** Everything is dollar loan. We do not have any rupee borrowing. So out of this Rs. 2400 crore, Rs. 1700 is long term in the form of ECB and Rs. 700 crore is working capital loan. And Rs. 300 crore is the cash which we are having on our balance sheet. So the net debt is Rs. 2100 crore.

**Ravi Shenoy:** Okay. The net interest rates for us is Libor plus 250 basis point overall for the entire loan?

**B. K. Bansal:** Yes.

**Moderator:** Thank you. Next question is from the line of Shailesh Kumar from Indsec Securities. Please go ahead.

**Shailesh Kumar:** What is your view on the margin going forward, this quarter has seen best of the margins? So, next couple of quarters, how do you see margin panning out? When you are saying that there is some pressure on final product prices?

**B. K. Bansal:** Assuming that the same scenario continues, I think we should be able to maintain the same kind of margin what we have declared in the third quarter.

**Shailesh Kumar:** So around 25%.

**B. K. Bansal:** Yes.

**Shailesh Kumar:** In your presentation you have given a volume wise sale as per geographies? Can we have the actual sales number geographically like Europe, what percentage of sales has come from Europe, Americas?

**B. K. Bansal:** Same. If you apply this percentage to the total number of volume which we have achieved during 9 months, you will get the number.

**Shailesh Kumar:** So sales number is in the same proportion?

**B. K. Bansal:** Yes.

**Shailesh Kumar:** Sir this Balkrishna Paper and Balkrishna Synthetics Ltd, combined together if we take the 9 months number, what will be top line for 9 months and bottom line?

**B. K. Bansal:** I do not have numbers for 9 months, but for the half year, the

top line number is for both the entities put together is around Rs. 105 crore.

**Shailesh Kumar:** And bottom line sir?

**B. K. Bansal:** Bottom line is, after tax and depreciation there is a loss of around Rs. 3-4 crore.

**Shailesh Kumar:** And sir as our Bhuj plant, we also planned to have capacity for mining segment so basically the tyres which we will be making, their maximum radius will be 51 inches or even higher?

**B. K. Bansal:** As of now, it will be up to 51 inches then we may add the higher diameter tyres.

**Moderator:** Next question is from the line of Mr. Deniel Sawla from Athena Investments. Please go ahead.

**Deniel Sawla:** Just want to understand your margins in the replacement and OEM, how it pan out or how does it work?

**B. K. Bansal:** Broadly it is similar, but in some OE cases the difference would be around 4-5%.

**Deniel Sawla:** What are the margins currently in replacement segment?

**B. K. Bansal:** The overall margin as I said at EBITDA level is coming to 25-26%, so that way it varies for customer-to-customer, location-to-location and product-to-product, so the best way to look at it would be on overall perspective.

**Deniel Sawla:** And in terms of tyres, where the realization is high, I mean in terms of tons, say agriculture tyres or industrial wise tyres or small application?

**B. K. Bansal:** No again broadly it is same, but it would be higher for mining tyres which will be produced in the future by us.

**Moderator:** Next question is from the line of Mr. Ashwin Patil from LKP Securities Limited. Please go ahead.

**Ashwin Patil:** One question I would like to ask is that the employee cost in this quarter has gone up, so as a percentage of sales, it is about 4.1% which is the highest ever in the last many quarters, so any particular reason for that sir?

**B. K. Bansal:** No particular reasons.

**Ashwin Patil:** Because it was close to 3.6% in last quarter and about 50 bps growth is there in this quarter, there is no particular reason?

**B. K. Bansal:** No specific reason, but I can throw more light at a later stage when I am able to lay my hands on the details.

**Ashwin Patil:** Sir on the other hand, if you see your other expenses as a percentage of sales, it is on a downward trend, it is close to about 19.9% this quarter from 21% last quarter, specifically any reason for that?

**B. K. Bansal:** See basically other expenditure you have to see into rather than looking at as a percentage of sales, so if I see the sale number for the previous quarter, it was Rs. 146 crore and now it is Rs. 144 crore, so almost similar

because the increase in the top line is a function of as I said so many things which does not result in increase in other expenditure.

**Ashwin Patil:** So, that kind of a trend we can expect in the future also?

**B. K. Bansal:** Yes.

**Ashwin Patil:** As far as margins, you said that 25-26% kind of margin you are expecting, so that is peak kind of margins we are expecting for FY15 as well?

**B. K. Bansal:** As of now I can say this is the margin which we can think of or there is a visibility for those numbers, if situation improves it may increase also.

**Moderator:** Next question is from the line of Abhijeet Vora from IFCI Financial Services. Please go ahead.

**Abhijeet Vora:** Can you please repeat that Euro hedging rate once again?

**B. K. Bansal:** For the current year, it is between Rs.75-76 and for the next year it is Rs. 82-83.

**Abhijeet Vora:** And what is the current production from Bhuj?

**B. K. Bansal:** Bhuj basically around 75 ton per day, at this rate we are able to produce.

**Moderator:** Next question is from the line of Mr. Vikas Patwari from Credit Suisse. Please go ahead.

**Vikas Patwari:** My question was regarding the scheme of arrangement which we have announced, one is, can you please tell me what are key assets of Balkrishna Synthetics and Balkrishna Paper Mills?

**B. K. Bansal:** See the key assets are plant and machinery, land and building.

**Vikas Patwari:** When we look at one share of Nirvikara been issued for every 9 shares of Balkrishna industry, but it is not in proportion to the revenue or the profit these two segments generate, so can you please throw light on how is that factored?

**B. K. Bansal:** See first of all Balkrishna Industries shares are of Rs. 2, so 9 shares if you convert it into Rs. 10 share. then it comes to, for 1.8 shares of Balkrishna Industries we are giving 1 share of Balkrishna Paper Mills Ltd. Now the ratio has been aligned keeping in mind the minimum capital requirement for the purpose of listing, which is Rs.10 crore and accordingly we have kept it around same number and the ratio has been fixed.

**Vikas Patwari:** Sir Nirvikara, we expect to list in the period...

**B. K. Bansal:** Once this entire process is over the Nirvikara Paper Mill will be listed on SEC and NSE and by this exercise we are creating a major image of Balkrishna Industries Ltd. into Nirvikara Paper Mill Ltd.

**Vikas Patwari:** Let us say, the other way of looking at it is, if anyone gets 1 share for every 9 share of BKT so our market cap is around \$450 million, so essentially are we setting a valuation of something around 15?

**B. K. Bansal:** No, actually it has got more meaning by that market valuation

and you cannot proportionately calculate that, see basically as I explained that we are just creating a mirror image of Balkrishna Industries Ltd. and we are issuing those shares at free of cost, we are not collecting anything from the shareholders. So whatever shareholders will be getting, it will be like a bonus and it is not going to have any impact because the same shareholders will continue to hold the assets. The only difference which you will see, that currently the shares of Balkrishna Paper Mill Ltd. are held by Balkrishna Industries Ltd. as an entity and now the shares will be held by individual shareholders. So, that is only difference which will happen and by this, the shareholders will have an opportunity to unlock the value involved in Balkrishna Paper Mill Ltd share and realize the money, so it is very good from the shareholders' point of view.

**Moderator:** Next question is from the line of Nisha Rupani from PCS Securities Ltd. Please go ahead.

**Nisha Rupani:** I had a question sir, this is basically regarding the OEM suppliers you actually supply to. There is a slide in your presentation so I was just looking out at the names. So in this current quarter, you have quite a number of additions to the number of lists and there are some deletions to compare to the previous quarter, so I just wanted to check how is the competition spanning out in the OEM segment?

**B. K. Bansal:** There is no change in the competitive landscape; whatever was there earlier the same thing continues even now. As far as this list is concerned, this is an illustrative list. Now as we add new customer, we add their name and we just try to cover up whole thing in one slide, so in this process some names might be deleted.

**Nisha Rupani:** So it does not necessarily mean that there is a deletion?

**B. K. Bansal:** Yes.

**Management:** It is just a suggestive list Nisha, it is not an exhaustive list because it is difficult to fit in all the names in the presentation basically, so it is just a suggestive list.

**Nisha Rupani:** Because I was not seeing some of the big names there, so I just had a concern. Last question, I just wanted to check how many SKUs as on 31<sup>st</sup> December or currently?

**B. K. Bansal:** It would be around Rs. 2200 crore.

**Moderator:** Next question is from the line of Shradha Sheth from Edelweiss Securities Limited. Please go ahead.

**Shradha Sheth:** Sir just 2-3 question from my side, can we know what is the mark-to-market loss for 9 months?

**B. K. Bansal:** Right now, it is not available with me, I will give you separately.

**Shradha Sheth:** Two other questions, sir you said rubber prices will be muted for medium-term, so what is the basis of that assumption?

**B. K. Bansal:** See, overall demand-supply scenario, because there is no major

uptick in the tyre demand across the segments and the production of the natural rubber continues to be robust so, looking at these two things we are anticipating that prices should be muted.

**Shradha Sheth:** Also is it on the basis of some oversupply in key rubber producing countries?

**B. K. Bansal:** As I answered that everything covers for under the supply situation.

**Shradha Sheth:** And sir what is the capacity utilization from our existing plant, excluding Bhuj?

**B. K. Bansal:** Around 75%.

**Shradha Sheth:** And at Bhuj based on current capacity, it would be?

**B. K. Bansal:** Bhuj, we are trying to utilize full, so Bhuj I think, it is almost around 80-90%.

**Shradha Sheth:** And the current capacity at Bhuj is around, 50,000-60,000 tons?

**B. K. Bansal:** Not 50-60,000, around 30,000-40,000.

**Shradha Sheth:** Sure and sir lastly, in the nine months, what has been the pricing action? You said in the recent past, we have not taken any cuts but for nine months, what has been the...

**B. K. Bansal:** No, I think whatever the price reduction was taken in the beginning of the year, after that we have not taken any price correction.

**Shradha Sheth:** That was how much at the beginning of the year?

**B. K. Bansal:** 7-8%.

**Shradha Sheth:** And sir, just one more, what is our capitalization schedule, whatever is remaining?

**B. K. Bansal:** No, everything is likely to be capitalized by March 15<sup>th</sup> or before that.

**Moderator:** Next question is from the line of Mr. Jigar Walia from OHM Group. Please go ahead.

**Jigar Walia:** First question is on, as you mentioned about possible rubber prices being muted and possible contemplation that there might be a scenario possibility where prices could be negotiated downwards. If I understand correctly, price negotiations in OTR or tyre segments normally happens about twice a year in terms of the frequency. So, to understand more granular, does it happen twice a year? Is it on a contract-to-contract differs for each customer or it is more or less around the same time for all the customers?

**B. K. Bansal:** First of all. There is nothing like contract where we have to necessarily do it. This is the trend which we have explained to you. Then based on the market scenario and other things, we ourselves revise it and declare it to our customers.

**Jigar Walia:** Even for OEMs, it would be more or less on an ongoing basis, not necessarily a contracted?

**B. K. Bansal:** Yes.

**Jigar Walia:** Irrespective of the price changes which happen because of the input prices, increase or decrease, I think ideally, if you look at the gross margin in rupees or dollars per ton, that should ideally remain the same or that should not decline even if there is a price revision downwards.

**B. K. Bansal:** If there is a price revision downwards, then the gross margin would change, know?

**Jigar Walia:** As a percentage, it would change, but if you are looking at a dollar per ton or a rupee per ton or would that not be an appropriate way to look?

**B. K. Bansal:** No, that will not be an appropriate way to looking at it.

**Jigar Walia:** And sir, our capacity as we keep expanding our Bhuj capacity, you intent to have the utilization at around 70-80%, so the number of staff addition or the other expense addition would probably only be staggered to the extent that your gratuity increase in the capacity.

**B. K. Bansal:** Correct.

**Jigar Walia:** So, you will not come at a stage where, certainly. So the employee number that we are looking, should also increase more in line with a how our production increases because it is more like a variable number.

**B. K. Bansal:** Yes.

**Jigar Walia:** One final question, the sales chart that we give for distribution OEM take off, just to clarify that, based on rupee sales right, or is it based on volumes?

**Management:** It is based on volume metric tons.

**Moderator:** Next question is from the line of Mr. Vineet Hetamasaria from Bharti AXA Life Insurance. Please go ahead.

**Vineet Hetamasaria:** First, what is our replacement dealer inventory currently?

**B. K. Bansal:** They would have around 2-3 months of inventory.

**Vineet Hetamasaria:** And given that, rubber prices have pulled off in the last one month, I think, again there would be a resistance from them to increase the inventory.

**B. K. Bansal:** Yes, at this moment, nobody is increasing the inventory significantly. Everyone is maintaining the inventory in line with the procurement cycle.

**Vineet Hetamasaria:** Regarding our depreciation guidance for the next year, earlier we were guiding for a higher depreciation of almost Rs. 225 crores, now we are guiding for a lower number. So, is there a deferment in our capitalization?



**B. K. Bansal:** No, see basically, we project and the actual depreciation number would depend on the actual date of capitalization, so if there is any variation into that, this changes the number. But, otherwise, there is no significant change in what we have projected earlier and what I am saying now.

**Vineet Hetamasaria:** Another thing I wanted to understand, our graduation, even on sequential basis, is showing an uptake, while if I look at the currency rates, they have been quite stable. So what explains that?

**B. K. Bansal:** Basically, we realize our foreign currency receivables as per the forward contract rate, which we book in advance, so which always differs from the current currency rate.

**Vineet Hetamasaria:** Yes, but for that purpose only, actually we are having a line item in our expenses. I am looking at adjusted-realization.

**B. K. Bansal:** Correct. So, if you adjust it with exchange gain or loss, then for the last 2 quarters, it is more or less same.

**Vineet Hetamasaria:** I have the number, which I am getting is 2,44,000 for September quarter and 2,50,000 for December quarter.

**Management:** It is actually 2,41,000 for September quarter and 2,43,000 for the December quarter, which makes it an increase of around 5.8%.

**B. K. Bansal:** It is not only the currency. It is linked to the product mix also.

**Vineet Hetamasaria:** Another thing which I wanted to understand is that, we are having overall 2/3 exposure to the agriculture segment, but if I look at the Geography, suppose Europe and USA, whether this mix is again similar for the Europe and US?

**B. K. Bansal:** Almost similar.

**Moderator:** We have next question from the line of Mr. Manoj Baheti from Advise Securities. Please go ahead.

**Manoj Baheti:** I just wanted to understand, what is the maximum capacity utilization out of new plant? And also wanted to understand the likely sales mix from new plant like in terms of mining, agriculture and others?

**B. K. Bansal:** The total capacity at Bhuj plant would be 140,000 which is an achievable capacity, so which means that we can produce 140,000 from the Bhuj plant. Now as far as mix is concerned, around 40% would be OTR and 60% would be agriculture and other applications.

**Manoj Baheti:** And in OTR, it will be mainly mining?

**B. K. Bansal:** Yes, it will be mainly mining.

**Manoj Baheti:** Vis-à-vis currently, I think we do not have much on mining side, right?

**B. K. Bansal:** Correct.

**Manoj Baheti:** It is mainly industrial.

**B. K. Bansal:** Correct, industrial and construction.

**Manoj Baheti:** And sir, 140 KT, if I have to translate in terms of revenues, like it will be similar kind of realization which we are getting right now?

**B. K. Bansal:** Yes, for the discussion purpose, if we take 250 kind of realization, then the total turnover we can achieve from Bhuj plant would be around Rs. 3000 crores.

**Manoj Baheti:** And it will have similar kind of working capital cycle, despite of change in mix?

**B. K. Bansal:** Yes.

**Manoj Baheti:** Lastly, sir what is our plan for capacity utilization ramp up once the Bhuj plant is completely capitalized up and running.

**B. K. Bansal:** Given a choice, I would like to utilize it in the year first itself, but it would depend on the demand, overall market condition, and the demand scenario.

**Manoj Baheti:** So, like post capitalization, I think it may take two to two and a half years?

**B. K. Bansal:** Yes, the way things are positioned now, it looks that it will take 3 years to reach to full capacity utilization and if the things improve then we can look at early period also for full capacity utilization.

**Shradha Sheth:** Just one question, no plans for further CAPEX, right?

**B. K. Bansal:** As of now, no CAPEX plan in sight.

**Shradha Sheth:** Thank you so much from our side.

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

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