Conference Call Transcript

Balkrishna Industries

Q3FY18 Results

February 15, 2018 | 04 p.m. IST

Corporate Participants

Mr. Rajiv Poddar
Joint Managing Director

Mr. B K Bansal
Head Finance

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Balkrishna Industries Q3 FY2018 Earnings Conference Call hosted by Edelweiss Securities Limited. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Madam!

Shradha Sheth: Thank you Karuna. On behalf of Edelweiss let me welcome you all to the Q3 FY2018 Earnings Call of Balkrishna Industries. From the management today we have Mr. Rajiv Poddar, the Joint Managing Director and Mr. B. K. Bansal, the Head Finance. So I will hand over the call to Bansal Ji for his initial comments on the industry and company's performance post which we will open the floor for Q&A. Thank you and over to you Sir!

B. K. Bansal: Thank you Shradha. Good afternoon everyone. I welcome you all to the post result earning call of our company for Q3. As Shradha said I am joined by Mr. Rajiv Poddar, our Joint Managing Director and Shogun of SGA. First I will talk about the overall business environment of the company, so we continue to witness positive demand traction of highway industry globally. The improving economic outlook globally gives us confidence for continuous growth. There have been many developments globally in the recent past, which support our belief of future growth more particularly the growth forecast in US has been revised upwards from the back of a stronger than expected activity in 2017. The tax cuts and the spending there own will further stimulate demand in the US. The growth forecast for many of the eurozone economy have also been revised upward especially for the Germany, Italy and the Netherlands reflecting stronger momentum in domestic demand and higher external demand and third thing is emerging and developing Asia, which accounts for over half of the world growth is estimated to grow at 6.5%.

We have recently inaugurated R&D Center at our goods facility it will allow us to be ahead of the competition in terms of our product offering, innovation to improve the performance of the tyre and thereby strengthening our brand. It will also allow us to work closely with OEMs with deeper penetration, allowing us to increase our market share. Having established reputation as a high quality OHT tyre manufacturer we are confident of increasing our overall market sales going forward.

Now I will touch upon the operating and financial performance of the company during the quarter. Our sales volume for the quarter was 49,553 metric tonnes reflecting a growth of 23% Y-o-Y while for the nine months our sales volume was 145,211 metric tonnes, which represents growth of 15% Y-o-Y. Our standalone revenue for the quarter stood at Rs.1161 Crores showing a growth of 26% Y-o-Y, this includes realized gain on foreign exchange pertaining to sales of Rs.55 Crores. For nine months, the standalone revenue stood at Rs.3,418 Crores showing a growth of 20% Y-o-Y, which includes realized gain on foreign exchange pertaining to sales of Rs.185 Crores.

On the EBITDA front for the presentation purpose, we have shown the interest income from investment and unrealized gain/loss below the EBITDA while realized foreign exchange gain items have been shown above EBITDA. Accordingly, the standalone EBITDA for the quarter was at Rs.352 Crores showing a growth of 14% Y-o-Y with a margin of 30.3% whereas for the nine months the EBITDA was at Rs.1014 Crores showing a growth of 5% Y-o-Y with a margin of 29.7%. Other income for the quarter stood at Rs.78 Crores, which includes net gain on foreign exchange to the tune of Rs.73 Crores and other income from investment of Rs.5 Crores. For nine months the other income stood at Rs.253 Crores, which includes net gain on foreign exchange to the tune of Rs.198 Crores and other income from investment of Rs.55 Crores.

Coming to the net forex items for 9MFY18, the net foreign exchange gain stood at Rs.198 Crores, which includes realized gain of Rs.203 Crores and unrealized loss of Rs.5 Crores. Profit after tax stood for the quarter was recorded at Rs.190 Crores whereas for the nine months it was Rs.546 Crores. On the debt front, our gross long-term debt now stands at Rs.213 Crores and in USD terms it works out to around USD 33 million as of December 31, 2017. Our cash and cash equivalents were Rs.1098 Crores implying net cash not only on long-term basis, but also at the total debt basis. We shall repay the balance long-term loan of 33 million in the month of August 2018. The Board of Directors has recommended another interim dividend of Rs.1.5 equity shares in addition to Rs.2.5 per equity share on the adjusted basis paid in H1 FY2018. We maintain our volume guidance of -190,000 to 195,000. That is all from my side at this moment and with this I leave the floor open for the question and answer. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Congrats on a very good set of growth. Sir one question firstly on other expense it has increased quite sharply on Q-on-Q basis also Y-o-Y?

B. K. Bansal: Out of it almost Rs.25 Crores to Rs.28 Crores is one of kind of expenses of course there are many expenses, so it is not just one item, otherwise the normalized level would be Rs.225 Crores to Rs.228 Crores.

Ashutosh Tiwari: Rs.225 Crores to Rs.228 Crores normal rate for other expenses I think?

B. K. Bansal: Yes.

Ashutosh Tiwari: What is this one off basically can you say one or two item?

B. K. Bansal: Basically we did some marketing expenses, promotional expenses, there was opening of R&D Centers where we had invited our customers all over the globe plus we have also shifted some of the equipments from the Waluj and the Bhiwadi plant to Bhuj plant, so on account of that some expenses were incurred. So these are the kind of expenses which are one off and non repetitive in nature and apart from that another reason for increase in the other expenditure is shifting from pet coke to coal, but that is not very significant amount.

Ashutosh Tiwari: And secondly we have seen realization drop if I divide the previous number by the volume there is a drop on Q-on-Q basis, is there any price cut or something?

B. K. Bansal: No, basically I think the published result reflects the total income, which includes the sales plus other operating income, which keeps fluctuating, so removing that if we see the realization then there is hardly any difference, so according to my calculation the realization in the previous quarter was Rs.234, which now stands at Rs.232.

Ashutosh Tiwari: Maybe other operating income?

B. K. Bansal: Yes, I have told Shogun from the next presentation we will also show this other operating income as a line item so that you can calculate it in a better way.

Ashutosh Tiwari: And on the Euro rate for the quarter and how we are placed for FY2019?

B. K. Bansal: For the quarter it was at around Rs.80 and as I said the full year average would be anywhere between Rs.81 to Rs.82.

Ashutosh Tiwari: For next year?

B. K. Bansal: Next year also it is expected to be around same level Rs.81, Rs.82.

Ashutosh Tiwari: Last thing I asked what is the progress of the higher diameter tires basically I mean we are doing trials earlier, so have we started commercial supplies over there?

Rajiv Poddar: Yes that is ongoing procedure and that has already been tested and the regular production is on.

Ashutosh Tiwari: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Thank you for taking my question. Sir this quarter basically we were looking at the global company results, so what we found out from the company's commentary is that we have started seeing strong pickup in the agri segment particularly in the European OEM market, are you also seeing such signs because that would be very positive for you because you derive a large part of your volume from the agri segment only?

Rajiv Poddar: Yes, we are seeing some uptick coming up there and as Mr. Bansal in his speech also mentioned the uptick coming up from there, so we see the numbers growing in fact, so definitely there is slight demand in all of the tyres.

Nishit Jalan: Sir can you share your production numbers from the Bhuj plant for this quarter and how was it on a Y-o-Y basis?

B. K. Bansal: From the Bhuj plant the production for the quarter is 20,250 and for the nine months is about 55,000.

Nishit Jalan: Thank you.

Moderator: Thank you. The next question is from the line of Varun Arora from Karma Capital. Please go ahead.

Varun Arora: Thanks for the opportunity. My question is regarding the carbon black plant that is coming up, if you can give an idea regarding the savings that can be expected of the commissioning of that plant roughly what addition can we see on the margin?

Rajiv Poddar: Currently we have announced capacity of 60,000 metric tonnes, which will take care of the carbon black requirement of 2 lakh metric tonnes of tyres, so assuming that at the fully operational level then there will be a margin addition of around 1% to 1.5% on the overall company basis.

Varun Arora: Got it and we are expecting this to commission by FY2019?

Rajiv Poddar: By end of FY2019.

Varun Arora: The second question is regarding the volume mix, so if you could give sense how you plan for the nine months?

Rajiv Poddar: More or less it is same, agri is around 62%, 63% and this OTR, which includes industrial construction and mining is around 33%, 34%, and small tyres like ATV lawn and garden is around 3% to 4%.

Varun Arora: Are we expecting higher share from the industrial mining?

Rajiv Poddar: Going forward it will increase gradually.

Varun Arora: So it is also fair to say that realization in this segment is higher than the agri and therefore we can expect margin shift over there?

Rajiv Poddar: As a product mix if you look at it we will be doing both the bias and radial as well and small as well as the big so, by and large the average should not go up drastically, it is a certain segment or pocket of this has a better realization, but that will not be the entire basket or gamut of products sold, so the margin realization should be similar.

Varun Arora: Got it. Alright. Thank you.

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

Puneet Gulati: Thank you for the opportunity. Just wanted to understand you mentioned that you moved some machinery from Waluj to Bhuj plant, is this a trend, which you will continue, do you intend to close Waluj?

B. K. Bansal: Not at all, it was just a product re-alignment, which was being done there is no such talk of moving or shutting it down. It is basically some product re-alignment so we moved, a segment of product from Aurangabad to Bhuj and from Bhuj to Aurangabad so just some realignment. It was also from Bhiwadi, we just did some internal recheck of the product mix to improve the overall efficiency of all the plants.

Puneet Gulati: Did I hear it right your carbon black plant would come by end of FY2018 or 2019?

B. K. Bansal: End of FY2019. We are yet to start, getting various permission, etc.

Puneet Gulati: What is the percentage of radial now in your overall production?

B. K. Bansal: It is around same 30%.

Puneet Gulati: So 30% of your entire production is now radial?

B. K. Bansal: In agri and in OTR it is another 6%, 7%.

Puneet Gulati: Sorry, I did not get it.

B. K. Bansal: On company basis, it is around 36%, 37%.

Puneet Gulati: Now Sir entire agri portfolio 30% is radial?

B. K. Bansal: Agri is 30%.

Puneet Gulati: And of your entire balance OTR portfolio about 6%?

B. K. Bansal: Of the OTR.

Puneet Gulati: OTR 6% is radial, so how are you seeing the growth on that part, are you seeing some new orders coming from that side?

B. K. Bansal: Orders are coming from all the product categories, so we have to cater as per the requirement or demanded by the customers.

Puneet Gulati: Any change in competitive intensity that you are seeing in this market?

B. K. Bansal: Not in the recent part, it is same what it was earlier.

Puneet Gulati: That is all from my side. Thank you so much.

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

Bharat Gianani: Thank you for the opportunity. My question is what is your current share of OEM and replacement?

Rajiv Poddar: Basically about close to 25% is OE.

B. K. Bansal: OE is around 26% and replacement is around 71%, 72% and offtake is just 2%, 2.5%.

Bharat Gianani: Coming back on your global market share it is like about 4%

to 5% I guess so of the overall market size that you cater to, so can you split that for us like what would be your replacement market share currently and OEM market share, so just basically what I am trying to understand is given the areas, which we are serving what is the mix between OEM and replacement in that market, which we are serving and what is your respective market share currently and your aspiration?

Rajiv Poddar: Basically the global OST market is roughly estimated at around $15 billion and split between OEM replacement is almost 50:50, so the share in the OEM is hardly 2% or so and whereas in case of replacement it is again around 3% to 4%.

Bharat Gianani: Lastly what is your aspiration of market share over a medium term?

Rajiv Poddar: With the current capacity we can increase it to around 6%, 7% and then we will continue to grow by adding capacity.

Bharat Gianani: Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Manoj Gupta from Perfect Research. Please go ahead.

Manoj Gupta: Are we able to fully transform the increase in raw material prices to customers or we pass only certain portion of the price increase and also what is the time lag in months that you take to pass on the price increase?

Rajiv Poddar: There is no any kind of policy or rule book that we pass only so much of percentage it all depends on the market condition and competitors behaviour, so accordingly we take a call. Generally the pass on is to a significant extent and it happens with a lag of three to four months.

Manoj Gupta: Regarding the market size of this industry I wanted to know what is the addressable size of opportunity in the context 10 years for us to grow in context of global market, you have raised the question for the fixed percentage sometime, so I would like to know broader prospect for that?

Rajiv Poddar: As I said it is estimated at around $15 billion, so that we consider as addressable market and now we are currently at around $650 million so which works out to 4.5% to 5%, this is how the overall market is positioned.

Manoj Gupta: Like around 10 years where can we see ourselves for this market share position?

Rajiv Poddar: Assuming that everything remains where it is today then we can continue to maintain the CAGR of around 12% to 15%.

Manoj Gupta: How is the overall market is growing and do we have any plan?

Rajiv Poddar: It is around 4% to 5%.

Manoj Gupta: And Sir do we have any plans to start a new product category or new geography?

Rajiv Poddar: Yes, that is our constant endeavour, we keep developing new products so every year we add around 80 to 100 new SKUs in our product basket and also try to explore various markets where we are not present even in the market where we are present there is a lot of scope for further penetration because as I said our overall market share is only 4% to 5%, so that means we have a lot of scope to grow geographically and product wise.

Manoj Gupta: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Naveen Mata from Bajaj Allianz. Please go ahead.

Naveen Mata: Thanks for the opportunity and congratulations for a good set of numbers. The question was actually on the raw material side just wanted to know what is the raw material that we booked in this quarter for some of the major key commodities?

B. K. Bansal: Sorry Naveen can you come again?

Naveen Mata: I just wanted to know what would be the natural rubber, synthetic rubber cost for this quarter and also for the trend going forward what do we expect?

B. K. Bansal: Natural rubber average price was around Rs.115, synthetic was Rs.105 and the trend as far as natural rubber is concerned I would say it is stable because now we do not see any further deep decline. The other raw material, which are basically crude derivative so their price pattern would depend on the moment in the crude prices.

Naveen Mata: So on spot basis if we look at synthetic rubber have we seen an increase from where we had booked third quarter?

B. K. Bansal: Slight increase and at second quarter the average was Rs.102, which is now Rs.104.

Naveen Mata: And so overall on the margin side Sir if we just passes one time that you mentioned do you see further scope for margin expansion or gross margin expansion especially?

B. K. Bansal: Basically it depends on so many things, so pricing, product mix, currency, we are always giving guidelines that our margin profile on a sustainable basis in the current environment should be looked between 28% to 32% and that is what we have been maintaining, so because of these various reasons there can be swing of 1% or 2%.

Naveen Mata: That is it from my side. Thank you so much.

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

Amyn Pirani: Thanks for the opportunity. Sir my question was on the relative use of raw materials within radial and in your bias product, so is there a significant difference into the percentage of natural rubber, synthetic rubber, carbon black between radial and the bias product?

B. K. Bansal: Nothing significant.

Amyn Pirani: It is more or less the same.

B. K. Bansal: It is more of a process, which is different and yes little bit of change in the raw material composition, but it is not very significant.

Amyn Pirani: So broadly speaking would natural rubber be what 50% of your raw material basket or lesser?

B. K. Bansal: 40%.

Amyn Pirani: And synthetic rubber would be?

B. K. Bansal: Actually natural rubber and synthetic rubber both put together comes to around 50%, 51%, so 35% to 36% is natural and 16%, 17% is synthetic rubber.

Amyn Pirani: Carbon black would be 25?

B. K. Bansal: Carbon black would be around 26% to 27%. This I am talking in terms of volume.

Amyn Pirani: Yes of course, understood and given that last year when rubber prices were going up I think the competition did not increase prices because there is an expectation that rubber will come down, now that at least the crude related commodity prices are expected to go up, are you seeing any action by the competition or people are just holding onto prices?

Rajiv Poddar: Holding onto prices. Nobody is talking of any price increase because increase in the crude derivative has been compensated by the fall in the natural rubber prices.

Amyn Pirani: On an overall basis the blended cost increase will not be there?

Rajiv Poddar: Yes.

Amyn Pirani: Understood. Thanks for this Sir.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Thanks for taking my question. Just to understand this carbon black expansion, I do not know if I guess this would have been discussed even previously in previous calls, but so just on this thing you were saying about 1% to 1.5% margin improvement what is the capex for this thing?

B. K. Bansal: It will be around Rs.150 Crores for 60000 metric tonnes capacity.

Sonal Gupta: So then what is the payback period that you see given that the margin improvement?

B. K. Bansal: Around three years.

Sonal Gupta: Is there anything strategic to this in terms of?

Rajiv Poddar: Basically it is not from the investment point of view, it is more to ensure the interrupted supply of the carbon black, which we are facing challenges in that in the recent past, so that prompted us to think of putting up captive carbon black project.

Sonal Gupta: When you mentioned sorry just another clarification you mentioned 30% of agri is radial, so you meaning as a percentage of total sales, so that is why the total adds up to 6% to 7% OTR or it is just 36 to 37?

B. K. Bansal: Basically at the company level our overall radial exposure is around 36%, 37%.

Sonal Gupta: In the case of like you said 63% is agri, out of which 30% is radial right

Rajiv Poddar: Yes the mix between radial and bias in agri is almost 50:50.

Sonal Gupta: You mentioned that your OE share is 2% and your replacement market share is 3% to 4%, but then when we talk about overall market share is around 4.5%, 5%, so I am just trying to put that together on the global OE?

B. K. Bansal: As I said the total replacement market is around $8 billion and our replacement exposure is $400 million, so it works out to almost 5%, and in OEM we are $200 million, so it is 2% something.

Sonal Gupta: Great Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: Sir just wanted to understand the net profit fell down so much why because the raw material prices I believe has crashed, the backward integration was supposed to help us of course?

B. K. Bansal: Basically if you see sequentially I do not see any significant fall because in the September quarter my net profit was 16.94%, which is now 16.26%.

G Vivek: But year-on-year?

B. K. Bansal:: Year-on-year again 19.8% it has come down to 16.26%, so overall you can see even the margin has come down because in the year-on-year basis EBITDA was around 34%, now it is 30% and plus the tax figure keeps changing according to the depreciation, so that is why there is some difference in the PAT number.

G Vivek: If you go through the topline appears to be still okay, but the net profit growth is very poor Sir comparatively. The PAT margins have also sort of because raw material rubber prices are supposed to come down they are at the historical low, so are you not getting benefit out of those soft rubber prices Sir?

B. K. Bansal:: It is mainly as I said the tax implication the average tax rate in the same quarter of previous year is 28% and in this quarter it is 33%, so that is why you are seeing a fall in the PAT margin.

G Vivek: Because of that benefit coming down or slowly going away from our Bhuj plant?

B. K. Bansal:: No, there are no tax benefit, tax provisions are done according to the availability of depreciation and other things so in some quarter it is higher, some quarter it is less, maximum tax rate is 33% something, which is appearing now.

G Vivek: I just wanted to know about the impact of the soft rubber prices because right now the rubber prices I believe are at the historical low with the farmers in Kerala and Tripura crying out and in the south also?

B. K. Bansal:: That benefit we are getting, but it has been offset by increase in the crude derivatives, so that is why there is no significant fall in the raw material prices, which otherwise would have happened ahead the crude prices would have been benign.

G Vivek: Got it Sir and this would be if we are going for that backward integration it might help us slightly better?

B. K. Bansal:: Yes at the company level it will add another 1% to 1.5% kind of margin.

G Vivek: Do we have pricing power to pass on the raw material fluctuations or rise?

B. K. Bansal:: Yes, we do have, but it happens with a lag effect.

G Vivek: Of how much Sir?

B. K. Bansal:: Of three to four months.

G Vivek: This is sort of a temporary blip you can say about the crude.

B. K. Bansal:: Yes.

G Vivek: And now the crude also coming down slightly?

B. K. Bansal:: Yes, prices may not go up as was being feared earlier when it reached gross 70.

G Vivek: Second thing is basically we have a 20-year head start over competition, but a lot of Indian players seeing your performance may be and Alliance also they have started foraying into OTR segment like all the big names MRF and JK and everyone I believe is venturing into it, so how do we suppose to tackle it, what is our moat and increasing competition, what impact can it have on us?

Rajiv Poddar: We cannot stop competition, so we continue to focus on the quality, customer satisfaction and on the cost side, so we are in a position to offer product to our customer at a competitive price and thereby looking at the growth.

G Vivek: Any new entry and the new OEM made by us recently?

Rajiv Poddar: I think we have already associated with almost all the OEMs.

G Vivek: Because our US base due to low labor cost in India we are able to outbid the competition initially in other places, so where do they score over us Sir because we are having now 20-year track record providing quality products at a reasonable price, but still our market share is only 4% why is it not increasing Sir?

Rajiv Poddar: It is increasing if you see the growth rate it is around 15%, but we are still new compared to the established player and they work more with OEMs whereas our OE exposure is very less and strategically we do not intend to increase our exposure with OE very aggressively, so that is why the growth is happening, but at its own pace. If you compare ourselves with company like Michelin they are 100 years old company, we are only still 20 years, so from 0 to this level we have reached and now going forward with this growth rate our overall market size will definitely look better in the coming years.

G Vivek: What is the opportunity size for us and what is the CAGR expected for us?

Rajiv Poddar: Opportunity size is approximately $15 billion and expected CAGR is 12% to 15%.

G Vivek: About Indian operations I believe lot of efforts have gone into it, Sunny Deol is coming in and what are the initiatives we are doing it for Indian operations and are the margins equal or better than the international operations?

B. K. Bansal:: We are actually increasing our product range in the Indian market, so earlier agri was completely the focus from our point of view, now with Sunny Deol on the board we are focusing on the agri segment and as a result our India sale is continuously increasing.

G Vivek: Margins are also comfortable in India?

B. K. Bansal:: Yes it is, but not as good as in the export market, but it is good.

G Vivek: Thank you.

Moderator: Thank you. The next question is from the line of Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: Yes thanks a lot for the opportunity. Sir followup question that I would like to know what is our India strategy going forward and if you can quantify our numbers as to what would be the margin compared to the export market?

B. K. Bansal:: Currently our India exposure is around 16% of our total sales, five year down the line this may increase to around 25%. As far as margins are concerned it keeps fluctuating, but there is a difference of around 2% to 3% compared to export margins.

Rohit Chavan: 2% to 3% compared to export margin?

B. K. Bansal:: Yes.

Rohit Chavan: Thanks a lot for this. Sir my second question would be I was looking at the number I was seeing that we have made something like Rs.526 Crores of PAT and on the top of that we have the depreciation of Rs.233 Crores, so net-to-net we are making around Rs.800 Crores on nine month basis, so on annualized basis it will be somewhere around Rs.1100 Crores, so we would be generating huge amount of cash and this is also on the top of Rs.1100 Crores of the cash equivalents already have, so huge pile of cash do we have any mega or big project going forward or how are you going to use this cash, what is the strategy?

B. K. Bansal:: We do not have any major capex plan, on the immediate basis we have this loan repayment lined up, which will be around Rs.225 Crores and balance we would be running a treasury till we get any better utilization option.

Rohit Chavan: So there would be any plan with a dividend payout?

B. K. Bansal:: Nothing as of now.

Rohit Chavan: We can assume that no capex plan for next one or one-and-a-half years?

B. K. Bansal:: There would be some capex, the size of the company even the maintenance capex would be around Rs.200 Crores and plus this carbon black capex would be around Rs.150 Crores.

Rohit Chavan: Yes that is right.

B. K. Bansal:: And then dividend payout, there would be some increase in the working capital also current assets with the increase in the sales.

Rohit Chavan: Sir my third question, which is sort of minor question most of it already answered, most of the questions have been answered that radial adjustment, so I also to understand what is our radial adjustment policy going forward in the agri and OTR segment how do you see the competition playing?

Rajiv Poddar: So we are working towards radialization, so we expect that in the next few years 36% will go up to about 40%, 45%.

Rohit Chavan: 40 to?

Rajiv Poddar: 40% to 45%.

Rohit Chavan: This would be primarily in agri or it would be in OTR?

Rajiv Poddar: Primarily agri, but OTR would also push through.

Rohit Chavan: Thanks a lot for your answers.

Moderator: Thank you. The next question is from the line of Deepak Kapur, an Individual Investor. Please go ahead.

Deepak Kapur: Just wanted to understand what is the possibility of substitution between natural rubber and synthetic rubber, to what extent can you substitute given a cost market?

B. K. Bansal: May be 1% or 2% here or there basically the formulations are all done so to be like it will rework, so percent here or there is a not a problem.

Deepak Kapur: But over time have you seen the percentage of natural rubber coming down because of raw material and synthetic more and more?

B. K. Bansal: Between the two natural and synthetic, it fluctuates by percentage here or there, but the rubber component itself would be that much only.

Deepak Kapur: So there is no significant shift away from natural rubber towards synthetic it is largely maintained over the years?

B. K. Bansal: No.

Deepak Kapur: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: Just wanted to know what is the current capacity utilization for us and how much can it go up to and capex?

Rajiv Poddar: Currently it is around 65% and as we ramp up our production and sales it will continue to increase.

G Vivek: Basically there is no issue on a demand side because of the lower demand we are able to put the capex only at 65%?

B. K. Bansal:: Yes demand is increasing, in last two years only the overall demand scenario had changed prior to that the overall business environment was very subdued and last year also we registered a growth of around 15% and this year also in nine months we have taken a growth of around 15%.

G Vivek: Best part about our company in my opinion was that when the market was sinking then we were increasing our market share, how was it happening and now the things have changed better with the uptick in the agri and the commodity cycle, so how much of utilization can go up to?

B. K. Bansal:: So we are pushing to maximize the utilization and we are striving hard. We are hoping that the utilization number goes up to the maximum possible.

G Vivek: What about the US experience, we are so far having quite a big share in Europe I believe especially in the agri segment, but what about the US in the OTR and the industrial segment?

Rajiv Poddar: US is the work in progress, we are working in, our teams are working hard there, we are trying to increase our share and hopefully we should get there as well.

G Vivek: Any new countries we are targeting and what about the increase in dealership, numbers of dealers, etc?

B. K. Bansal: We work for distributors, so they get the dealers, we are evaluating, whichever focus is empty and we keep on working with our distributors to get that, but as far as new region there is no territory, we are present in about 161 countries, so very few countries left, we are trying to just make sure our network is strong here first.

G Vivek: Russia and the Eastern Europe also we are doing well Sir?

B. K. Bansal: We have started.

G Vivek: Russia, Ukraine, Eastern Europe the entry recently Sir?

B. K. Bansal: Yes

G Vivek: The Eastern Europe Sir we have started, appointed distributors and made an entry into the market very recently or has it been for some time now?

B. K. Bansal: We have been there for some time, but off late we have been actively focusing on this, so in the coming years we should see some positive things from here.

G Vivek: On twitter I was seeing I think so it is your Russian distributor is quite actively promoting BKT brand?

B. K. Bansal: Yes, we are push off social media, which is working along with us on that.

G Vivek: Russia is a huge country and I believe the potential is quite large?

B. K. Bansal: Yes, it is good.

G Vivek: I think doing well Sir. Keep up the good work Sir. Thanks for answering the queries Sir.

Moderator: Thank you. The next question is from the line of Akash Manghani from BOI AXA Investment Managers. Please go ahead.

Akash Manghani: Thanks for taking my questions, couple of questions. First of all can you help me with, you said market opportunity is $15 billion, but can you split it between OTR and agri and if possible between US and Europe?

B. K. Bansal: Unfortunately those kind of data points are not available.

Akash Manghani: Geography wise is not available, but between OTR and agri what would be the split?

B. K. Bansal: Roughly 60:40, 65, 35 maybe.

Akash Manghani: 65% OTR?

B. K. Bansal: Yes.

Akash Manghani: In your sense the market that is revived within the last 12 months this is more on the US side or Europe side, can you give some flavour?

B. K. Bansal: All over globally.

Akash Manghani: Globally it is equally spread out and do you get data on what has been the replacement market growth for the last 12 months for calendar year 2017?

B. K. Bansal: No again there are no data points, as I said the overall market is growing at the rate of 4% to 5%.

Akash Manghani: That would be the overall $15 billion, but within that replacement would be growing faster?

B. K. Bansal: Again for different product cycle.

Akash Manghani: So last two years you are primarily in the replacement market you had sort of nine months this year 15% volume growth and last year was 15%, so I am assuming the replacement cycle being one and one-and-a-half year and the growth was good last two years, so the replacement growth should be even higher in the next financial year, is that correct understanding?

B. K. Bansal: Replacement cycle is not one to two years across the board, as I said for the different product category it is different, so it is even three to four years whereas for mining it is less than a year.

Akash Manghani: What are you doing to increase the share of OTR in overall pie, is there a planned strategy and what are the wide spaces right now?

B. K. Bansal: Strategy by which we have been working for last so many years with the same step and same strategy is being followed for OTR also, no specific or separate strategy for that.

Akash Manghani: Fine and the peak utilization that you can achieve is it 75%, 80% or you could go to 100%?

B. K. Bansal: Yes that is of the installed capacity, but now we are talking of achievable capacity, so we can go up to 95%, 100%.

Akash Manghani: So you can do 300000 volumes?

B. K. Bansal: Yes.

Akash Manghani: When will you start and the next expansion whenever that would be Greenfield or Brownfield?

B. K. Bansal: It will be a Brownfield because we have used vacant land in Bhuj, so it would be a Brownfield kind of capex and it will be very modular in nature.

Akash Manghani: The other Indian players who ventured into OTR segment and trying to sell in Europe at what price points would they be operating vis-à-vis what you are operating at?

B. K. Bansal: I would not know about that.

Akash Manghani: What do you see as a major risk, is that this recovery will be sustainable for the next one or two years or generally in your sense the cycle lasts for how long?

B. K. Bansal: Yes major risk is overall economic outlook, if it continues to do well we will continue to grow and we already have seen a subdued business cycle of around 6, 7, 8 years and the recovery has just started in the last year, so we believe that this should continue even for next 4, 5, 6 years.

Akash Manghani: Globally the major top four, five players will be sitting on what capacity utilization any sense on that?

B. K. Bansal: No idea.

Akash Manghani: Thank you so much.

Moderator: Thank you. Ladies and gentlemen with this I hand over the conference to the management for their closing comments. Over to you Sir!

B. K. Bansal: So I thank you all the participant for taking out their time and joining our earning call and all the best to everyone.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Aditya Narain, Head of Research, aditya.narain@edelweissfin.com

DISCLAIMER

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.