

Transcript

Conference Call of Balkrishna Industries Limited

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the conference call of Balkrishna Industries hosted by LKP Securities. At this moment, all participants are in a listen only mode. Please note this conference is recorded. I would now like to hand over the floor to Mr. Ashwin Patil, Research Analyst LKP Securities. Over to you, sir.

Ashwin Patil: Thank you Moumita. Hello and welcome to everyone. We have with us the senior management of Balkrishna Industries, represented by Mr. B.K. Bansal, Director Finance. Welcome to you sir. I would now like to handover the call to Mr. Bansal who would discuss the Q1FY14 results and share their views on their business as well as the industry going forward, post which we will open the floor for Q&A session. Thank you and over to you sir.

B.K. Bansal: Thank you Ashwin. Good afternoon everyone. I welcome you all to the post result earning call of our company for quarter one of the current financial year. I am joined by strategic growth advisors. Firstly, I would like to give you a brief update on the current demand scenario and prevailing market condition across the globe. The demand environment continues to be faced with some recovery being witnessed in the select geographies and segments. Incoming recovery data suggests a resilient US economy with only a mild temporary setback. We are optimistic on our performance in the US and would continue with our marketing efforts to drive the demand further. A pick up in the pace of business activity is predicted during the second half of the year amidst a positive growth from the US in the coming quarter. In view of the US economy improving we believe that it should have a rub-off effect even in our other business in Europe, Asia and other geographies. While discussing in the earlier calls, our penetration in the new geographies witnessing a favorable response; we are continuing with our efforts to explore this territory further and create our strong presence. Some of these geographies include Russia, CIS and Africa. Our efforts to increase presence in India has started paying results to us. Our sales in India has gone up by almost 50% in the last one year and our local sales teams in the various geographies are in constant touch with current as well as potential customers so as to understand their requirements and concern and make necessary improvement in our product line. Besides Indian market, our efforts to increase export to the OEMs have also started paying results to us. The sales to OEMs have increased by almost 30% in the last one year and we will continue to make efforts to increase our base with OEMs. The replacement market continues to be steady. As you all are aware, we would be having a dedicated capacity of large and ultra large all-steel radial mining tyres coming from our new facility at Bhuj and thereby the company would be in a position to cater to the additional mining tyre demand which could not be met earlier due to capacity

constraints. We expect the positive OTR demand going forward and with the complete ramp up of the Bhuj plant we will be having a better sales mix of OTR and Agricultural tyres. As a marketing exercise, we continue to participate in various Trade Fairs held across the globe at regular intervals and this helps us in increasing a better brand image and visibility among our customers. The ramp up at Bhuj plant is in progress. We have incurred a total capital expenditure of around 1720 crores at Bhuj till 30th June 2013. Post this expansion the total achievable capacity of the company would be around 276,000 metric tons. On raw material front the volatility in natural rubber prices have reduced to a great extent. The prices have been moving in a broad range in the past few months and are expected to remain largely stable. We are maintaining our natural rubber inventory of approximately two months.

Now I would like to run you through the financials for the quarter. Our revenue for Q1 stood at 833 crores. The EBITDA stood at 196 crores which is around 23.5% and PAT was at 102 crores which is around 12.3%. We continue to maintain our annual sales guidance of 145,000 to 150,000 metric tons for the current financial year. With this I now open the floor for question and answers.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Jay Kale from IDFC Securities. Please go ahead.

Jay Kale: Good afternoon sir. Thanks for taking my question. Congratulations on a good margin performance. My first question pertains to your pricing across geographies. We have seen a weak demand across geographies and you have a favorable exchange rate for yourself. How have you maintained your pricing across the country? Have you taken a price cut to boost demand or is pricing stable across the industry currently?

B.K. Bansal: No, we have taken a price cut and this price cut is in tandem with the decrease in the raw material prices. So roughly we have reduced the prices across the board by around 8% to 10%.

Jay Kale: Okay. So that's in line with the industry or...?

B.K. Bansal: Yes in line with the industry.

Jay Kale: So currently the differential between your competitors would be how much?

B.K. Bansal: That remains the same. That continues to remain between 25% to 30%.

Jay Kale: Okay so that has not changed?

B.K. Bansal: Everyone has reduced the prices.

Jay Kale: Okay and sir what could be your average exchange rate for the current quarter in terms of...? Your USD – INR is naturally hedged right with your importers?

B.K. Bansal: Correct, correct.

Jay Kale: And your euro would be hedged at what rate?

B.K. Bansal: Euro would be around 74 to 75.

Jay Kale: So this will be for the next one year?

B.K. Bansal: Correct. For the current financial year.

Jay Kale: Do you have a scenario wherein you would have over hedged considering a weak demand going forward and hence...?

B.K. Bansal: No.

Jay Kale: What would be your current order book?

B.K. Bansal: Current order book is approximately two months.

Jay Kale: So that would be around 50,000 metric tons?

B.K. Bansal: It will be around 22,000; 23000 metric tons.

Jay Kale: Right. Sir what would be your debt on books currently?

B.K. Bansal: Around 2000 crores.

Jay Kale: That is long-term and short-term?

B.K. Bansal: Yes, long-term and short-term both.

Jay Kale: And sir on your other expenses, there has been a sharp increase on a quarter on quarter basis. Is there any forex loss sitting in that head...anything like that?

B.K. Bansal: No, no there is no forex loss this time.

Management: Jay it is mainly due to increase in advertising and promotional expenses because of which you see an increase in other expenses.

Jay Kale: Okay so it is mainly advertisement. This would be the sustainable run rate going forward?

B.K. Bansal: Yes.

Jay Kale: Okay fine sir. Just one more question. What is your current production at Bhuj? Is it currently 276000 metric tons?

B.K. Bansal: See the Bhuj capacity would be 120,000 metric tons. Last year we took I think around 15,000 tons of production. In the current financial year we expect to reach around 60,000 to 70,000 kind of production level.

Jay Kale: Okay. And sir capitalization of depreciation of interest would be going through the P&L over the course of the year?

B.K. Bansal: Yes.

Jay Kale: Okay thank you.

Moderator: Thank you sir. The next question comes from Mr. Jaising Suchak from JM Financial. Please go ahead.

Jaisingh Suchak: Good afternoon congratulations on the results.

B.K. Bansal: Yes thank you.

Jaisingh Suchak: Few questions; one was on the raw material side you said that we are having two months' inventory of natural rubber, what could be the pricing for the same in terms of for the quarter what is the natural rubber pricing?

B.K. Bansal: For the last quarter the February price was around 3000 dollars.

Jaisingh Suchak: Okay and it is in the similar range right now?

B.K. Bansal: Right now it is slightly lower than that. It would be between 2500 to 2800 dollars.

Jaisingh Suchak: Okay. What about the other raw materials like carbon black and synthetic rubber...how are those moving?

B.K. Bansal: There is no too much of movement in those prices. Those prices are basically in a range only.

Jaisingh Suchak: In the range mark?

B.K. Bansal: Yeah.

Jaisingh Suchak: Okay could you help me in the geographical split in terms of the revenues like for Europe, USA, rest of the world Russia for this quarter?

B.K. Bansal: Europe is around 51%. America would be around 17%, and balance goes to rest of the world and India would be around 11% to 12%.

Jaisingh Suchak: Okay. We spoke about the fact that US was the one doing very well, or doing recovery; but seems like Europe has in fact gained some share?

B.K. Bansal: Yes, US is expected do well in the coming period as per data coming from the US. It is expected that US market should open up sharply.

Jaisingh Suchak: Okay fair enough. And is it 236,000 metric tons would be the capacity end of FY14 and FY 15 would be 276,000 as Bhuj comes on?

B.K. Bansal: Correct.

Jaisingh Suchak: Okay thanks so much and wish you all the best.

B.K. Bansal: Thank you.

Moderator: Thank you. The next question comes from Mr. Prakash Kapadia from I Alpha Enterprises. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Congratulations on good margin. Sir if you could give us some sense on do we have a distributor number in mind? In your opening comment you mentioned you were looking at other geographies and some of the other initiatives to de-risk from Europe. So I think last you had told us, we had around 200 distributors. Do we have like a number in mind say by the end of this year or you know non US distributors should be this...that's my first question. Secondly sir if I look at interest cost, it has declined on a year on year basis. Can you throw some light on that? Thirdly, given that we would take around 75 days to fulfill demand and assuming that was to come back, how much of volume growth can we be seeing in the second half with some of these initiatives which you said can help boost demand?

B.K. Bansal: As far as the number of distributors are concerned, we said around 200 distributors are there. I do not have the geography wise like breakup of the distributor, but that is something which is continuously increasing because as we enter into new geographies, the business starts with the replacement market only. So it always happens through distributors, so that number keeps on increasing. I do not have the exact number of distributors at the moment. Now, coming to the second question of interest cost, yes our interest cost has come down because our overall cost of borrowing is very low. On working capital side the cost of borrowing is just 1% to 1.5%. And since not too much of capitalization has been done during the quarter; most of the interest cost has gone into capitalization, so it is not routed through P&L.

Prakash Kapadia: And we should see that the shooting up is the second half sir?

B.K. Bansal: Not shooting up because as I had said earlier for the current financial year, our interest would be in the range of 32, 33 crores on a full year basis. It depends how much it capitalizes in which quarter, accordingly the interest and depreciation will inch up. And what was your third question sir, I forgot that.

Prakash Kapadia: Sir assuming that we take around 75 days to fulfill demand, in case demand comes back. So presuming that some of these initiatives or some of these geographies turnout as we expect to be...say US goes up or some orders flow

through and the rest of the world grows at a faster pace, how much can second half be better than compared to the first half, this is what I was trying to understand?

B.K. Bansal: Difficult to say the exact numbers. But as we have given the guidance that the full year should be 145,000 to 150,000 metric tons, we are making all efforts to reach those numbers and all our efforts to increase our sales in India with OEMs with new geographies. With all those efforts we are very confident to achieve those numbers.

Prakash Kapadia: Sure got it. Thank you and all the best.

Moderator: Thank you sir. Next question comes from Mr. Manoj Bahety from Edelweiss. Please go ahead.

Manoj Bahety: Good afternoon Bansalji. Sir my first question was on our forex loan that is I think around 275 million dollars right?

B.K. Bansal: Correct.

Manoj Bahety: That is not hedged? We have not hedged that loan?

B.K. Bansal: No, no.

Manoj Bahety: Okay so what is the amount of forex which we have capitalized in the current quarter? What will be your strategy going forward for this loan because for this loan we don't have natural hedge because whatever exports we have in USD that is sufficient to cover our rubber imports only right?

B.K. Bansal: Rubber and other raw materials.

Manoj Bahety: Correct.

B.K. Bansal: See basically as far as the hedging of 275 million loan is concerned, the repayment would happen in three equal installments beginning from June 2015. So at some point in time we would start hedging it and at the same time we would also be creating a corpus to take care of the repayment. Both will happen simultaneously so there won't be any extra burden on the company on account of this hedging. And as far as the capitalization of the interest during the current quarter is concerned, I don't have the figures readily available with me, you can take it from me separately.

Manoj Bahety: Sure sir and forex loss?

B.K. Bansal: Yes, the same forex loss that is being capitalized.

Manoj Bahety: Okay interest as well as forex goes...Okay both these numbers I will take it from you separately. Sir, my second question was, this year we are giving a guidance of around 145 to 150 K volume, so that means how much capacity utilization?

B.K. Bansal: Capacity utilization would be around 70%.

Manoj Bahety: What's the plan for ramping up the capacity utilization because at the end of the year we will be at 236 K and I think mid of FY'15 we'll be at 272 K kind of capacity?

B.K. Bansal: Yeah full capacity would be in place.

Manoj Bahety: Because Europe is still having a slowdown and the only signs of recovery we are seeing is from US, as well as I think India is also showing good recovery. So don't you think that US and India market will be able to utilize our incremental capacity? There will be some sort of capacity under utilization for the next couple of years?

B.K. Bansal: Looking at the current scenario, I can say that it will be difficult to achieve full capacity utilization but as I said earlier that because of two three things, like increasing our presence in India, increasing our base with OEMs and launching the OTR tyres in to the market, all these things should help to ramp up our capacity. Now, to what extent and when it will happen is a question mark and that time will tell. But we are very hopeful that we should go ahead of the market.

Manoj Bahety: Okay. And sir lastly what is our share of OEM and replacement? Like how much of our volume is right now is for OEM and replacement?

B.K. Bansal: OEM is now 18%, earlier it used to be 15%. And the replacement will be around 77%, 78%.

Manoj Bahety: Okay, right sir thanks for taking my questions.

Moderator: Thank you sir. The next question comes from Mr. Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: Good afternoon sir. Congratulations on a good set of numbers. Just to get one data point from you...what would be the production for this quarter?

B.K. Bansal: Production for this quarter was 35,191 metric tons.

Abhijeet Dey: And compared to what was it the same quarter last year?

B.K. Bansal: Last year it was 37,900.

Abhijeet Dey: Fine. You gave the geography wise break up, Europe 51% and US 18%; is it on volume terms or revenue terms sir?

B.K. Bansal: Volume.

Abhijeet Dey: What was it in the same quarter last year? Europe would have been how much?

B.K. Bansal: Europe was around 46%, 47% and America was around 23%, 24%.

Abhijeet Dey: Okay that would be the difference in this quarter and the last quarter? And in India sir, earlier when we have interacted, you should tell us...

B.K. Bansal: India used to be 7%, 8%, and now it is 11% to 12%.

Abhijeet Dey: Yeah in our...actually what I was going to ask you is that you usually had said before that in India the margins are not quite as good as in export markets generally speaking. So have you seen an improvement in that or the situation remains more or less the same?

B.K. Bansal: No. See it depends on which type of product we are talking about. If we go for lower size tyre, tractor tyre, then there is competition and that's why the margins are low. But our big sales in India is mainly for mining tyre and to OEMs and there is no margin pressure.

Abhijeet Dey: Okay thank you.

Moderator: Thank you sir. Next question comes from Mr. Basudev Bannerjee from Quant Broking.

Basudev Bannerjee: Thanks Bansalji for taking my question. Any change in the floating dollar loan interest rates in the recent times?

B.K. Bansal: No. LIBOR remains same there is no change. Minor changes are always there on daily basis but no significant change.

Basudev Bannerjee: Sure sir and as you said you will be reaching somewhere around 60,000 or 70,000 of goods capacity; still not at its peak capacity. So will the full debt or the full interest be coming on the P&L or part of that will be capital?

B.K. Bansal: Part of it will come in the current year. The full will come in the next financial year.

Basudev Bannerjee: Sure. And sir I missed out at the beginning of the commentary you said some price cut during the quarter so I missed out, so can you repeat that?

B.K. Bansal: Yeah we have taken price cut across the board in the range of 8% to 10%...

Basudev Bannerjee: Compared to last quarter?

B.K. Bansal: Yeah, whatever it was at the end of the last financial year.

Basudev Bannerjee: Okay you were saying 8% to 10% on a year on year basis?

B.K. Bansal: Correct.

Basudev Bannerjee: And whatever increase we can see on the rupee term it is primarily because of the forex movements?

B.K. Bansal: Yes.

Basudev Bannerjee: And this is 8% to 10%, both in dollar and euro terms you are saying?

B.K. Bansal: Yes, because we always quote the price in foreign currency that is dollar and euro.

Basudev Bannerjee: Sure. And sir as you are still confident of achieving 1,45,000 plus for the year, that means quarterly run rate of almost 37,000 in the coming three quarters. So what are the confidence drivers for that kind of figures to be achieved which were not present in the last year?

B.K. Bansal: Like our increasing our base and our exposure with the OEMs. Earlier we were not able to supply OEMs in a big way because of the capacity constraint and now we are dedicatedly working to increase the base and that has started to pay the results also. And we shall see that our sale to OEM has increased from 15% to 18%, 19% so that would be the growth. So similarly India market we are paying more attention so that would also would be another growth driver.

Basudev Bannerjee: Primarily the major OEMs are as per the presentation which were given the logos of?

B.K. Bansal: Yes.

Basudev Bannerjee: And broadly can anyone see any differential in margins with OEMs typically, the other ancillary industry there is a decent difference between replacement and OEMs?

B.K. Bansal: Well that is always there but in our case that is not that significant. In few cases...in some cases we have similar kind of margins what we have from our replacement to customers.

Basudev Bannerjee: Sure. Okay sir thanks.

Moderator: Thank you sir. The next question comes from Jay Kale from IDFC Securities. Please go ahead.

Jay Kale: Just a couple of more questions sir. You said that your Europe contribution has gone up to 51% from 45%, so there you would have seen around 7% growth. If America has come down, if my calculation is correct, it comes to 32% decline. You said that the outlook for US is better. So where has this decline come from? Is it mainly from mining tyres or is it from the Agricultural tyres?

B.K. Bansal: It is mainly in the industrial and construction tyres.

Jay Kale: Okay the OTR segments?

B.K. Bansal: Yes.

Jay Kale: Okay. Sir what are the number of SKUs currently? 2000 was the earlier number...?

B.K. Bansal: It will be around 2200.

Jay Kale: Okay. Sir one more thing, about the OEM prices; how is it?

B.K. Bansal: There is no price policy kind of thing, we have a price which we quote to them and then after negotiation and discussion it is finalized. So the currency flavor does not come into the picture at all whether it is a OEM customer or replacement customer, currency does not come into play in any manner. So it is all linked to the raw material prices and the trend in the industry.

Pramod: Sir this is Pramod from IDFC. I have one question on the price cut. Just want to understand this price cut is more for the distributors over there right?

B.K. Bansal: Yes and to all the customers, even to OEMs also.

Pramod: And this will be like...this is what we expect the distributors to pass it on to the customers to revive the demand or is it more to give into the profitability of the distributors at this point of time?

B.K. Bansal: No definitely they are passing it on to the customers because that is the trend in the market, so they just cannot retain it with themselves.

Pramod: Okay sounds good. Thanks a lot sir and best of luck.

Moderator: Thank you. The next question comes from Mr. Nishant Vyas from ICICI Securities. Please go ahead.

Nishant Vyas: Hello? You were highlighting on the OEM and could you just highlight which geographies if possible? Which specific OEMs you were mentioning?

B.K. Bansal: It is basically in Europe and in US, both places.

Nishant Vyas: Any specific names that you would like to highlight? Which OEM are you___?

B.K. Bansal: No it is with all the OEMs. We have relationships with all our OEMs. Only thing our exports are limited, now we are increasing it.

Nishant Vyas: Correct. So this would be...like you have become a major second or third supplier for that OEM, correct?

B.K. Bansal: I can't say whether we have become major, because now whatever incremental sales has come from them that is not that significant but all that I am trying to say is that we have the scope to increase our sales with them and we are making efforts in that direction. Yeah and those efforts have also started paying results to us. So that's what I want to say.

Nishant Vyas: Okay. Sir one thing with your guidance, you are not revising it however, there has been a serious change in improvement in the US environment in terms of the overall economic environment in the US. Would you think that it is possible for you to over achieve your guidance at the end of the year?

B.K. Bansal: It will be too early at this moment. Our endeavor will be always to cross the number we have given. In fact this is already a compressed number. Has the market been in a very good condition, we would have sold more than what we have projected now? So if the situation improves, we can definitely revise our guidance upwards....

Nishant Vyas: So one month into the quarter there has been no specific change in which gives you confidence?

B.K. Bansal: No, no at this moment I would like to maintain the guidance which we have given.

Nishant Vyas: So sir what is the order book like right now?

B.K. Bansal: Order book would be around two months.

Nishant Vyas: Same as last quarter?

B.K. Bansal: Yes.

Nishant Vyas: In terms of fixed cost sitting on the books, which is a kind of misnomer, could you just give us the numbers in terms of FY15, what would be the effective kind of yearly payout on interest and depreciation that is with us right now after Bhuj facility gets commissioned completely?

B.K. Bansal: As far as current financial year is concerned, we are looking at interest numbers of around 31, 32 crores and depreciation of around 160 to 170 crores. Next year those numbers would be around 50 to 55 crores and 225 crores on account of depreciation.

Nishant Vyas: Okay thanks a lot sir. Thanks for answering my questions.

Moderator: Thank you sir. The next question comes from Mr. Bharat from Quest Investment. Please go ahead.

Bharat: Good afternoon Mr. Bansal and congratulations.

B.K. Bansal: Yes, thank you.

Bharat: Sir, on this price cost that was effective from 1st April itself or is it a...?

B.K. Bansal: Actually the formal price cut was taken from 1st April earlier we have passed on the benefit of raw material reduction by way of discount and rebate and linked it to the volume etc. But now we have formally announced the price cut.

Bharat: This quarter there were other income as well as non-operating income both have shot up. Reason?

B.K. Bansal: See other operating income is basically some export incentives which we get; there will be sale of scrap etc. that is clubbed under other operating income. The other income basically contains the exchange fluctuation on the sales and purchases. So that is being reflected into other income if there is an income and if there is a loss, it goes into other expenditure.

Bharat: So the operating income would be repetitive in nature or could it be just for this year?

B.K. Bansal: Yes generally because always there is some sort of incentive which you can say is sort of recurring kind of income.

Bharat: Next year of course it depends on the margin?

B.K. Bansal: Correct.

Bharat: Okay thank you.

Moderator: Thank you sir. The next question comes from Rinki Gureja from Axis Securities.

Rinki Gureja: Thank you for taking my question. What is the booking rate for dollar and euro for the quarter?

B.K. Bansal: No, I do not have quarter wise numbers but for the year euro rate is around 74 to 75 and dollar rate is as per the market rate because we don't raise it in advance.

Rinki Gureja: Okay, ballpark for this quarter what we would have booked for the dollar?

B.K. Bansal: Dollar would be the same....see the market has been in the range of 54, 55 to 60 so the average would have been around 58 or so.

Rinki Gureja: And sir regarding our venture into the new markets like Russia, CIS and Africa; sir could you take us through the competition there, are the margin similar as to our current market that we cater to because our developing markets generally have margins and also in terms of competition, is there local competition or are we still dealing with the likes of Michelin and others?

B.K. Bansal: Yes, basically we are fighting against Michelin and some big names. There are no significant local players present and we are trying to make our presence in the replacement market followed by or simultaneously working with OEMs. We are getting a response but if you ask me any numbers it will not be any significant numbers to mention.

Rinki Gureja: Sure sir. So have you appointed distributors there?

B.K. Bansal: Yes.

Rinki Gureja: In all the countries we have set up over the distribution channel. So we could incrementally see the sales coming over maybe the next year?

B.K. Bansal: Yes.

Rinki Gureja: Thank you sir.

Moderator: Thank you. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad. There are no further questions, now I hand over the floor to Mr. Ashwin Patil for closing comments. Go ahead sir.

Ashwin Patil: Thanks Moumita. Thanks for the management of BKC and Mr. Bansal and all the participants on the call. Thank you and have a pleasant day.

B.K. Bansal: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.