

Balkrishna Industries

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* Basantkumar G. Bansal

* Rajiv A. Poddar

* Puneet J. Gulati

Ladies and gentlemen, good day, and welcome to Balkrishna Industries Limited Q1 FY '19 earnings conference call hosted by ICICI Securities. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as of date of this call. These statements are not the guarantees of future performance and involves risk and uncertainties that are difficult to predict. (Operator Instructions)

Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you, and over to you, sir.

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [2]

Thank you, Stanford. Good afternoon, everyone. Thank you for joining us today for the Balkrishna Industries earnings conference call. From the management's side, we are represented by Mr. Rajiv Poddar, Joint Managing Director; and Mr. B.K. Bansal, Director of Finance.

Now I would like to hand over the call to the management for their initial remarks. Over to you, sir.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [3]

Yes. Thank you, Nishant. Good afternoon, everyone. I welcome you all to the post-result earning call of our company for the Q1 of financial year '18/'19.

I'm joined by Mr. Rajiv Poddar, Joint Managing Director; and Mr. Shogun from SGA.

First, I would like to talk about the performance. So the off-highway tire industry is witnessing positive momentum for the last 2 years, with the prevailing overall business environment across the globe in commodities and agriculture.

We believe that with a strong brand equity, (inaudible) and percentage across various geographies, we should be able to capitalize and gain market there. Otherwise, there is no change in the business model and business strategy and other businesses as usual.

With this, I will now move onto the performance highlights. To begin with, our sales volume for the quarter was 56,754 metric tons, a growth of 23% year-on-year. This is our highest-ever quarterly volume turnover. Our stand-alone revenue for the quarter stood at INR 1,414 crores, showing a growth of 36% year-on-year. This includes realized gain on foreign exchange pertaining to sales of INR 51 crore.

On EBITDA front, for the purpose of presentation, we have shown the interest income from investments and unrealized gain/loss below the EBITDA, while realized foreign exchange gain items have been shown above EBITDA.

Accordingly, the stand-alone EBITDA for the quarter was at INR 411 crores, showing a growth of 67% year-on-year with a margin of 29.1%.

Other income for the quarter stood at INR 82 crores, which includes net gain on foreign exchange to the tune of INR 73 crores and other income from investment of INR 9 crores.

Coming again to the net ForEx items. For the quarter, net ForEx gain stood at INR 73 crores, which includes realized gain of INR 53 crores, and unrealized gain of profit after tax stood for the quarter was recorded at -- unrealized gain of INR 20 crores, sorry. The profit after tax stood for the quarter was at INR 230 crores.

Now I will talk about our debt position. Our gross long-term debt stands at USD 33.33 million at the end of 30 June 2018, which will be paid tomorrow being its due date. With this, our long-term debt will come to 0.

Our cash and cash equivalent were INR 1,267 crores as on 30 June, implying a net cash on a long-term basis. The Board of Directors has recommended an interim dividend of INR 2 for equity sale that pay out, including dividend distribution tax, would be INR 46.61 crores, which comes to 23 -- 20.3% of tax.

In lieu of this quarter 1 performance and the current quarter trends, we are pleased to increase our volume guidance for the financial -- current financial year to 225,000 to 230,000 metric tons.

Now a little bit on CapEx. We had initiated to set up the Carbon Black project of 60,000 metric tons per annum, which is currently underway.

Considering the overall demand-supply outlook of the Carbon Black and the growing production of our tire, the board has approved to enhance the project size from 60,000 metric tons to 140,000 metric tons.

The total capital outlay on the entire project is estimated at INR 425 crores, which is planned to be completed by end of financial year 2021.

That's all from my side. With this, I leave the floor open for the question and answer. Thank you.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Samir Palod from AUM Fund Advisers.

Samir Palod, [2]

I have 2 questions. One is, you started -- earlier, you were (mumbling) a big proportion of your sales was in developing union, and you were more focused on agri tires although you went down the line of trying to expand into the U.S. and more into the mining segment. If you can just talk about how that revenue is being (inaudible) on market share (inaudible) for U.S. customer as well as the aftermarket as well as the mining segment.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [3]

So if you -- on the mining part, we are seeing some growth coming up. And as we've always said earlier, the mining segment lower to get going because we need to give you a product really tested and validated. So now that the round of validation has gone through, we are seeing some traction and we are seeing growth in that. The U.S. market, we are steadily growing. Over the last few years, we have been able to pick some growth in that, not to the desired level because we had other issues. But now, things have stabilized in the next 2 or 3 years. We seem to be getting good -- I mean, with all of the groundwork being done, we will see the good pickup in that market as well.

Samir Palod, [4]

Sir, if you could share some statistics on how much of your sales comes from the U.S. and then how much from mining overall?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [5]

So from U.S., it's -- currently, it is around 17% and then all OTR, which includes industrial, construction and mining, is around 35%.

Samir Palod, [6]

Sir, the whole company, right, all over the world?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [7]

Yes, yes.

Samir Palod, [8]

Sir, my second question is, what was the reason why the Carbon Black expansion was start up, if you can elaborate on that? And then we can see the CapEx number, there doesn't seem to be any efficiencies of putting up a larger CapEx, your 60,000 tons and your 140,000 ton capacity. There is no saving because of the increase in the size of the plant that you're putting up for CapEx.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [9]

Yes. So basically, initially, we had a plan for 60,000 and now we see that our entire production is increasing and this incremental CapEx, which will be commissioned by 2021. And that time, hopefully, we should be at the peak of our tire production. And then afterwards, we may have further capacity to support our growth plan. So for that we would again require the Carbon Black facility. So while we were planning it, our technical experts advise that it makes sense to add the capacity at this stage so that when you need it, it is readily available to us. And moreover, we are also adding the soft grade. Earlier, we were only going for hard grade. So with this, this was the proper composition which we came across and we are going for that.

Samir Palod, [10]

Sir, but the reason you're putting up this CapEx is what I want to understand. Are you saying a Carbon Black shortage? Is there an availability issue, price issue, that you are designing into...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [11]

Availability as well as the pricing and the environmental concern in China. The -- so this is likely to continue for a longer period of time. So we wanted to...

Samir Palod, [12]

Sir, I remember 60,000 tons was going to cost you INR 150 crores...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [13]

INR 150 to INR 200 is what we were talking of. So -- but now the with the hard grade and soft grade, the cost is estimated at INR 425 crores.

Samir Palod, [14]

Okay. And on your OTRs, sir, on your core business, any plans to finalize beyond the 300,000 tons?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [15]

Yes, of course. [Early grow] like today, now we are talking of 230,000. And then with this run rate next year, we should be at the full capacity level, so definitely we will have to add capacity.

Samir Palod, [16]

Sir, will it be -- that will be at the same plant, right, in Bhuj?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [17]

Yes, Bhuj only.

Samir Palod, [18]

Bhuj only, sorry. Is that going to be more modular? Is that going to be sort of smaller lines and...

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [19]

Of course, we are working on that yet. We don't have a definitive answer on that. We have time so we are yet working on that.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [20]

Definitely, it will be modular in nature.

Operator [21]

The next question is from the line of Puneet Gulati from HSBC.

Puneet J. Gulati, HSBC, Research Division - Analyst [22]

You've raised guidance in the first quarter itself despite the fact that there are concerning news about trade wars. Can you give some more color on what is giving this extra confidence this time?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [23]

First of all, this quarter number, you can see around 57,000 metric tons. And this trade war front that India and U.S. are talking, and I think we are trying to come out with an amicable solution. So we don't see that kind of trade war will emerge between these 2 countries. And with the increase in trade war with China, I think we are going to benefit from it only.

Puneet J. Gulati, HSBC, Research Division - Analyst [24]

There's very little Chinese competition anyways, isn't it?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [25]

Yes. So this is only a little thing. But on our own, we have a potential to grow and this was the only concern for which we believe that is not very much.

Puneet J. Gulati, HSBC, Research Division - Analyst [26]

Okay. Are you seeing farmer conditions improving, them demanding more products already?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [27]

Yes.

Puneet J. Gulati, HSBC, Research Division - Analyst [28]

Or has anything changed using -- okay.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [29]

Yes. I mean, on the agri as well as the America [farm] impact, as you see quarter-on-quarter, my America sales had increased by 40%.

Puneet J. Gulati, HSBC, Research Division - Analyst [30]

Okay, okay, that's super. Can you give how much is your radial tires now as a percentage?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [31]

Around 35%.

Puneet J. Gulati, HSBC, Research Division - Analyst [32]

35%. And what would be your realization in euro terms for this quarter?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [33]

Overall, we see our [year fully] is around to INR 241, INR 242.

Puneet J. Gulati, HSBC, Research Division - Analyst [34]

As in euro terms, how much -- at what euro would you have...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [35]

For the full year, it would be around 81, 82.

Puneet J. Gulati, HSBC, Research Division - Analyst [36]

Okay. So 81, 82, okay. So even current quarter, you were looking at 81, 82?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [37]

Quarter 1, it cannot be same figure throughout that 12 months. It's [in here]. So that's why I generally give the guidance for the full year.

Operator [38]

The next question is from the line of Aryn Pirani from Deutsche Bank.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [39]

Sir, my question was, you have a 300,000 capacity. Practically speaking, what kind of utilization level is possible? Like, can you go 200% or is there a cap...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [40]

300,000 is my achievable capacity. So I can go up to 300,000.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [41]

Okay, okay. And normally -- so I'm assuming that by the end of this year, you will be at 70-plus percent utilization?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [42]

Right.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [43]

So how much time does it take for you to actually -- like, at what capacity utilization level would you start adding the new line or the new brownfield expansion?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [44]

Now it will be a brownfield kind of expansion. So maybe 12 to 15 months in advance, we can -- we may have to plan it out.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [45]

Okay, okay, okay. And this CapEx of INR 425 crores, that is over 3 years. Is that right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [46]

Yes.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [47]

And so for this year, overall CapEx, just for this year, how much do you expect it to be?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [48]

This year, routine maintenance CapEx and this Carbon Black project, so both put together, it should be -- routine is generally INR 250 crores to INR 300 crores overall and this should be another INR 100 crores. So around INR 400 crores kind of CapEx is estimated for the current year.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [49]

Okay. And this Carbon Black, your initial intention was purely for captive usage?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [50]

Yes, even now it is for captive only. Otherwise, this capacity will actually come in '21, '22. By '21, we will be commissioning it. So most part of it will be used for the captive purpose only.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [51]

Okay. And this also will come in phases? I mean, like, do we have like first phase?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [52]

Yes. It will be -- we're now 60 to 80 and it will come basically in 2 phases.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [53]

Okay. So the first phase, any time line, by when do you think you can...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [54]

By end of this financial year.

Operator [55]

Next question is from the line of Shyam Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram, [56]

Sir, recently, Michelin acquired Camso with the production in low-cost (inaudible) like we are. And we also hear Bridgestone is doing some trial runs of low-priced agri tires in the U.S. Sir, with all this happening, are you seeing increasing competition in the agri tire space, especially in the export markets?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [57]

I think a lot of new players are coming up and doing. But I think now with the amount of time we have been in the market, we (inaudible) its own space and name. So we are moving ahead and going ahead. We said that BKT is an overall market of 4% -- 4% to 5%. So there's ample scope for everybody to play in the market.

Shyam Sundar Sriram, [58]

Sir, will that lead to more aggressive pricing, specifically in a rising commodity inflation environment? Do you see that kind of a scenario acting out?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [59]

Right now, we don't see that thing happening.

Shyam Sundar Sriram, [60]

Okay, okay, okay. Sir, you had very good guidance this quarter. Sir, which segment according to you is driving this higher guidance?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [61]

I see my product which has not changed. Today, also, the agri is around 62%, 63%; OTR is 35%; and other (inaudible) is 3%. So the growth is across the segment.

Shyam Sundar Sriram, [62]

Okay, okay, okay. Sir, last quarter, we had mentioned that U.S. were strictly weak. I mean, you had mentioned that it was below your own expectations. And this quarter, we have seen a nice jump of 40% on a quarter-on-quarter basis. Any specific reason that led to this pickup in the U.S. [throughput]?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [63]

We've been putting a lot of groundwork over there. So we've said the infrastructure ready now with everything in place. As I said, we are going to start delivering results, so we are in the moment -- a positive moment now. So between the last 2, 3 years have been now starting to pay back.

Shyam Sundar Sriram, [64]

So this is largely from the (inaudible) mining segment there or which segments are...

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [65]

All the product lines.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [66]

All product segments.

Operator [67]

Next question is from the line of Ashutosh Tiwari from Equirus Securities.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [68]

Sir, on the volume side, you said that 40% growth in U.S. volumes versus the fourth quarter. How wide is the growth versus last year in the U.S.?

Unidentified Company Representative, [69]

64%.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [70]

64%. Year-on-year 64%.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [71]

Okay. And within this kind of volume, will sustain going ahead as well? Because we are going to retain the strategy and all.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [72]

But in U.S., we are very underpenetrated, and we are working very hard. So we see good growth opportunity over there.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [73]

Sir, the U.S. was in this quarter only in terms of volumes?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [74]

Yes, yes, yes.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [75]

Okay. And secondly, I mean, how do you see the [volume] cycle moving -- going ahead in the second and third quarters? I mean, including this quarter, because we have seen good increase in this quarter.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [76]

Yes. So basically, the natural rubber prices have been in a very narrow range. The crude derivatives have moved up. But now you can also see that the crude is softening and coming down. So with this deep pressure on crude, derivatives will also come down. So going forward, I don't see any pressure on raw material. On the contrary, I see it is easing out.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [77]

Okay. So on a quarter-on-quarter basis, you don't see an increase in the second quarter?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [78]

No, no.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [79]

Okay. And any pricing action or something in recent times?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [80]

No, no, not really.

Operator [81]

(Operator Instructions) The next question is from the line of Sean from Edelweiss Securities.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [82]

This is Shradha. I have 2 questions. I wanted to understand, we had an 11% increase in realization year-on-year. So if you actually see the natural rubber prices have actually fallen off sharply in this quarter both Q-on-Q and year-on-year, so is it only the synthetic rubber, which has led to this kind of a price increase or there's some product mix also?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [83]

No, no, no. You are mixing 2 things. Selling price and raw material prices, both are different things. You are saying selling price has increased year-on-year. So that is because of product mix, better currency realization. Hence, on pricing, we had taken 6, 7 months back.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [84]

Okay. So we don't need to take any corrective action going forward with the...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [85]

No, no, no. Because I'm not seeing any steep fall in a short period of time in the crude. The trend is downwards. So as of now, we don't see any reason for the correcting our selling prices. And there is no such demand also from the market.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [86]

Okay. And sir, secondly, on the volume growth, just wanted to understand, are we again being conservative in guidance? Because the (inaudible) rate for the next 3 quarters is just 13% for our...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [87]

This guidance is not a cap. We always try to do our best. So -- and based on the current situation, we -- it'll keep guiding you people. So looking at the current situation, we believe that this is the realistic number for the current year. And if situation improves, we can definitely update it.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [88]

Right. Because agri also, I think, we are hearing positive things in the second half, which has actually been steady for us. Is if that improves, there could be even further scope, right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [89]

Yes. I mean, as I said, we are doing our best and it is not a cap from our side. So we will do all of our best to be more and more.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [90]

Right. And sir, lastly, on this Carbon Black, what could be the savings because of this captive capacity?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [91]

1.5% at EBITDA level and at -- or at company level.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [92]

On an annual basis because of this, right? Sorry, on an annual basis, right, sir?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [93]

Annual basis. But on tire business, there will be a saving of 1.5% at EBITDA level.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [94]

Right. All right. Sir, what is the kind of IRR on this project that we are working on?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [95]

It's at 20-percent-plus.

Operator [96]

The next question is from the line of Ronak Sarda from Axis Capital.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [97]

Sir, on crude and food derivatives and natural rubber, if you can just -- if you have the numbers handy, what would be the costs during the quarter?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [98]

Unfortunately, that numbers are not readily available. That has been the cost for growth (inaudible) in the current quarter.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [99]

Okay. I'll take that off-line.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [100]

Yes -- no, I have. Macro level is almost same quarter-on-quarter, around INR 116. Basket has increased a little bit in different items, in different proportions.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [101]

Sir, if you can just give me synthetic rubber and Carbon Black.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [102]

Synthetic was -- last quarter was 106. Current quarter, it has been 113. Carbon Black was 68 and now it is 76.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [103]

Perfect, sir. And sir, again, a question on your free cash generation, and you had highlighted you will [make that in the treasury book], but anything further from management side?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [104]

As of now, nothing. We will be in line of managing that readily in a sustained manner. But I think 12 months down the line, we may have to think of CapEx to increase the capacity because the lead time is around 12 to 15 months.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [105]

Sir, (inaudible) brownfield long term would not be very high.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [106]

Yes. But as of now, there are no plans.

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [107]

Okay. All right, sir. And sir, the last question is on your demand scenario. I mean, given the current strong demand, do you think that can also continue in FY '20? Or is it too early to take a call for FY '20?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [108]

Yes. I mean, the ways things are going, if it continues to move in a similar manner, then why not?

Ronak Sarda, Axis Capital Limited, Research Division - VP of Automobiles [109]

10% to 12% growth is still possible on the high end?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [110]

Yes, yes.

Operator [111]

The next question is from the line of Romil Jain from JM Financial.

Romil Jain, [112]

Sir, I had 2 questions. One is, sir, for the raw material for the Carbon Black, so I think we were going to take that from Reliance Industries. So even on expanded capacity of 140,000, there were no -- RM would be enough, right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [113]

Yes, yes, yes.

Romil Jain, [114]

So should not be a problem?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [115]

No, no.

Romil Jain, [116]

Okay. And sir, secondly, in terms of -- I think, we earlier had a countervailing duty from U.S. I think if I'm not wrong, was it about 5% also?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [117]

Yes, yes. It is still there.

Romil Jain, [118]

Yes, that continues. And will be for how much, sir?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [119]

Actually, it is for 5 years.

Romil Jain, [120]

Okay. So this will end around?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [121]

I think '21, it will end in '21.

Romil Jain, [122]

Okay, okay. And same thing on the -- your oxides. Sir, are we having any duty as such over there?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [123]

No, fortunately not.

Operator [124]

Next question is from the line of Shashank Kanodia from ICICI Securities.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [125]

Sir, if you can please give whatever procurement cost of Carbon Black for this quarter and costs from the period last year?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [126]

Equipment cost.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [127]

Sir, the procurement cost of Carbon Black.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [128]

Yes. Procurement cost, yes, yes. So Carbon Black for the last quarter, it was INR 68, and this quarter, it is INR 76.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [129]

Okay. And sir, the corresponding period, Q1 FY '18?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [130]

Unfortunately, that is not available with me. You can take it separately from me.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [131]

Okay. And sir, secondly, since you are a net exporter, so you don't actually -- you don't pay the anti-dumping duty on Carbon Black on imports?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [132]

Yes, no. We don't have to pay.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [133]

Okay. And sir, thirdly, a similar kind of profile requires much higher CapEx by your competitors, like domestic players. So what is the advantage that we have in terms of capital cost?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [134]

I do not know what is the product mix because there are various grades. So (inaudible) the overall project cost.

Shashank Kanodia, ICICIdirect.com, Research Division - Research Analyst [135]

Okay. And we're going to manufacture these within CBFS, right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [136]

Yes, CBFS.

Operator [137]

The next question is from the line of [Mihir Parekh] from (inaudible) Securities.

Unidentified Analyst, [138]

Sir, as far as the Carbon Black plant is concerned, we have (inaudible) raw material sourcing and where will it be? And also about the power requirement for a plant now that we are increasing the Carbon Black capacity also.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [139]

Yes. So sourcing is not an issue because the raw material is CBFS, which is amply available in India and we can import also.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [140]

Even not available, it is still imported.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [141]

Yes, yes.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [142]

And in fact, this will give us steam and power also. But basically, the byproduct of this can be used for manufacturing steam and power, so we can use it for our CapEx generation.

Unidentified Analyst, [143]

Sir, can you also give me the -- for the first quarter, what is the geographical breakup for (inaudible) in terms of the...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [144]

Geographical is Europe is around 51%, 52%; and America is 17%; Australia and New Zealand is 4%; and India is around 18%; and the balance is the rest of the world.

Unidentified Analyst, [145]

And sir, we had 2 capacities. What would be our utilization at this -- at both the facilities?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [146]

Sorry, sorry, come again?

Unidentified Analyst, [147]

The production facilities, what would be our utilization level at our plants?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [148]

Around 70%.

Unidentified Analyst, [149]

Around 70% at both the...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [150]

Yes, at all the 4 plants.

Operator [151]

Next question is from the line of Aryn Pirani from Deutsche Bank.

Aryn Pirani, Deutsche Bank AG, Research Division - Research Analyst [152]

I just wanted to check with you. Is there a particular scale or a market share after which you may have to think about setting up a plant in -- near your end market, be it Europe or U.S.? I mean, you are going to 300,000, potentially going to expand further. Is there a certain size after which you need to think about that or there is no such...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [153]

No such benchmark or criteria.

Amyr Pirani, Deutsche Bank AG, Research Division - Research Analyst [154]

Okay, okay. Because I assume that freight cost is quite high, and obviously, your employee cost is lower, but you think that you can continue to expand in the medium term without any requirement to set up a plant in Europe?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [155]

We are studying in -- as we said, maybe we work it out and rework on that and come back to you.

Operator [156]

Next question is from the line of Deepak Jain from Subhkam Ventures.

Deepak Jain, [157]

Sir, the -- beyond the 3 lakh ton capacity inputs...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [158]

These are across the plants. These are across the company.

Deepak Jain, [159]

Okay, sir. Sir, how much can Bhuj accommodate more as a brownfield expansion plant maybe after 1, 2 years?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [160]

I think, currently, it is 140,000. We can add another 150,000 metric tons that can hold.

Deepak Jain, [161]

Okay. And sir, the CapEx on another 140,000, 150,000 would be -- should be lower, right, the cost?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [162]

No, no, it is too early because it all depends on the product mix. It will be OTR and then buyer [for the ADL]. So it is too early to say anything.

Deepak Jain, [163]

Okay. And sir, on the mining tires, you were saying something about the -- on the approvals part. So basically, the mining tires will be going to OEMs immediately in the U.S.?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [164]

Yes, yes. It's going to both OEM and replacement both. So what happens now, approvals are required through OEM, also replacement with tires -- trial the first lot, then to study and then make it back, so it's going to both.

Deepak Jain, [165]

And since that part will ramp up probably at a greater pace than the agri tire, so on the margin side, are they having comparable margins or is there any major difference?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [166]

No. Obviously, OTR has a higher margin potential.

Deepak Jain, [167]

Okay, sir. So basically, if the product mix tilts towards...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [168]

Overall margins should improve.

Deepak Jain, [169]

Okay. Sir, so going by this, are we also expecting 150 bps improvement due to backward integration in Carbon Black?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [170]

Yes.

Deepak Jain, [171]

So basically, the peak margin situation you've been in FY '17, I think in the recent time point, so -- and also with the scale coming in operating results, so can we expect that with this scale, it is possible, if things are where they, to go to those margin results in FY '20, '21?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [172]

I cannot quantify it. But definitely, the margin trajectory is upward, considering all the facts which you are accounting.

Operator [173]

Our next question is from the line of Gaurav Khandelwal from Mirae Asset.

Gaurav Khandelwal, [174]

Sir, just one small clarification. If I understand it correctly, for every metric ton of tire that you produce, you would need 20% Carbon Black input.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [175]

27%.

Gaurav Khandelwal, [176]

27%?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [177]

Yes.

Gaurav Khandelwal, [178]

Okay. So this 140 million ton will then suffice around tire requirement of around 500 million, 550 million tons. In the interim, you will have extra capacity. So will you be also be looking to trade Carbon Black in the interim period?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [179]

Yes, we can. I mean, definitely, if we produce, so we can trade it. In '21, '22 or even thereafter because by '21, it will be completely then scalable also this time. So I think that situation probably we'll come across maybe in '22, '23.

Operator [180]

The next question is from the line of Shyam Sriram from Sundaram Mutual Funds.

Shyam Sundar Sriram, [181]

Sir, you mentioned that the mix this time was also a reason for better realization. But we see the tire-agri mix been mildly steady. So within the mix, if you can add more color on what...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [182]

No, there are 2,500 SKUs. So when we see product mix, which SKU is sold more, so accordingly, the margin varies.

Shyam Sundar Sriram, [183]

Okay, okay. So you look for any particular end-user segment that has driven the growth? I mean, that is what I'm trying to understand here.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [184]

No, no. End user, I mean, basically broadly for segment (inaudible), OTR, et cetera. But within OTR, weak SKU is sold more. Accordingly, the margin profile is little [mined].

Shyam Sundar Sriram, [185]

Okay. So eventually, we will have a larger area to satisfy...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [186]

It depends more when it leads to higher margin.

Operator [187]

Next question is from the line of Bharat Gianani from Sharekhan.

Bharat Gianani, [188]

I remember last year sometime back you had guided for your [agreeable] market share to double. Also, in terms of that, where are you currently and also what level of market share? And do you still stand by that guidance? So if you can just update us on that.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [189]

Yes, our global market share is around 5%. And with the full capacity, we can go up to 7.5% to 8%. So for double digit, we will have to add more capacity. So I don't think we have ever said that it will be in double digit in the near future because we knew for sure that with this capacity, we can go up to 7.5% to 8%.

Bharat Gianani, [190]

Okay, okay. So we still maintain that. I mean, 5% to 8% is still a very significant jump. So that is over what period of time, sir?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [191]

I think with the current run rate, next 2 to 3 years.

Operator [192]

The next question is from the line of Puneet Gulati from HSBC.

Puneet J. Gulati, HSBC, Research Division - Analyst [193]

Sorry, I missed the last part of the discussion where you talked about 5% going up to 7.8%. What was that relating to?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [194]

It's the overall market share.

Puneet J. Gulati, HSBC, Research Division - Analyst [195]

Overall, market share. Okay, okay. So if I -- sir, 2 questions. Number one is, you mentioned that America hasn't done well, yet you've grown 64% Y-on-Y. You think you can pretty much double also in a year? Is the growth likely to be that strong?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [196]

I mean, we see a strong growth. I -- it's been very difficult to say whether it will double or what rate, but as I said, the penetration in the U.S. is very less and there is a lot of opportunity to grow. And we have done a lot of homework over there, so that is all paying the results now.

Puneet J. Gulati, HSBC, Research Division - Analyst [197]

Okay. What has stopped the progress so far?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [198]

Cumulating the fact of everything, then we have quarter 3 in here. So clearly, because of penetration to customers reach out [was] product profile.

Puneet J. Gulati, HSBC, Research Division - Analyst [199]

Yes. What I'm trying to understand is, could there be a hockey stick kind of growth in the U.S. market starting from this year? Or is it more in the normal lines? Because 64% is very, very interesting number and yet you are not very happy about it.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [200]

No, no. See, the baseline is very small, so the percentage looks very high. So all right, I can say that the growth prospects are very good in America.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [201]

And we're doing our best to (inaudible) to it.

Puneet J. Gulati, HSBC, Research Division - Analyst [202]

Okay, okay. Great. Secondly, just a bit on the accounting side. When I look at your last quarter's presentation, the EBITDA number is INR 275 crores. You restated to INR 246 crores. Where has the restatement come about?

Unidentified Company Representative, [203]

Yes. There has been an adjustment between other income and the ForEx part above the EBITDA.

Puneet J. Gulati, HSBC, Research Division - Analyst [204]

Yes, I see that, yes. But why has that come out -- (inaudible) 24.

Unidentified Company Representative, [205]

Yes. So there is some reinstatement which happened last year. So there is no impact on profitability as such.

Puneet J. Gulati, HSBC, Research Division - Analyst [206]

Yes. But just trying to understand the nature of -- it relates largely to the realized gain part on ForEx, foreign exchange.

Unidentified Company Representative, [207]

If you recollect in Q3, we had some realignments, which were pertaining to Q1 of last year. So now we have restated that and, therefore, the EBITDA looks what it is in the presentation current quarter.

Puneet J. Gulati, HSBC, Research Division - Analyst [208]

Okay, okay, okay. And then, obviously, the 1Q number also are on the same accounting guidelines, right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [209]

Yes, yes, yes.

Puneet J. Gulati, HSBC, Research Division - Analyst [210]

So in the old accounting guidelines, EBITDA would have been actually even higher?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [211]

Yes, yes, yes.

Operator [212]

(Operator Instructions) The next question is from the line of Romil Jain from JM Financial.

Romil Jain, [213]

Sir, just wanted to know, in your natural rubber, what would be the mix for, let's say, import versus domestic this quarter or in general?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [214]

In general, we import to the extent of our exports. So broadly 80% to 82% would be import and around 18% would be the local sourcing.

Romil Jain, [215]

Okay. And is it like the local domestic rubber is higher in cost as compared to the imported?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [216]

Yes. Because on imported rubber, we don't have to pay duty. So considering that the imported rubber is cheaper than the local rubber. With duty, it is almost same.

Romil Jain, [217]

Okay, got it. And sir, second question is on the mining industry and the construction industry, so broadly the OTR segment. So because this segment tends to be more cyclical in nature than the agri, so just wanted to have your view that currently we will be in what phase of the industry. So are we likely to see this going on for the next 1 or 2 years or where would we be?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [218]

Yes, I think this cycle should continue. In fact, in India, et cetera, it has just begun and in continents like Australia and New Zealand also, we are seeing good traction. Of course, America is another major market. Canada is another major market. So looking at the overall business environment, we think that this should continue for next 2, 3 years.

Romil Jain, [219]

Okay, okay. And in India also, apart from agri tires, the 18% of India business would also have the mining tires?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [220]

Yes, yes, yes. The composition in India would be 50-50 between agri and non-agri.

Operator [221]

Ladies and gentlemen, that was the last question. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.