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* Basantkumar G. Bansal

* Rajiv A. Poddar

Nomura Securities Co. Ltd., Research Division - Associate

Ladies and gentlemen, good day, and welcome to Balkrishna Industries Limited Q1 FY '20 Earnings Conference Call hosted by ICICI Securities.

Please note that this conference is being recorded. 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr Nishant Vass from ICICI Securities. Thank you, and over to you, Nishant.

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

Thanks, Abby. Good day, everyone. Thanks for joining us today for this call. From the management 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 further initial remarks. Over to you, sir.

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

Thank you, Nishant. Good afternoon, everyone. I welcome you all to the earning call of our company for the first quarter. I am joined by Mr Rajiv Poddar, our joint Managing Director; and Mr (inaudible). I will start with business updates.

The market still remains challenging. Difficult macroeconomics and volatile climatic conditions in many of our end markets have caused certain uncertainties and impacted demand across our OEM customers and channel partners. As our global market clearly is small, particularly in the non-agricultural market, and with increased sales in India market and deeper penetration across our markets, we will remain optimistic on -- about our position on the India industry

Let me now update you on the various ongoing CapEx program of our company. The first one is Carbon Black. So the commissioning of Phase 1 of Carbon Black project of 60,000 metric tons has been completed during the quarter under review. On commencement portion, we started in the first week of July 2019 and the benefits, therefore, will start accruing from second quarter. The quality of the product has come as per our expectation, and we are expecting the second phase of 80,000 metric tons to be completed by FY '21.

On U.S. product, our Board reviewed the various aspect of our proposed U.S. projects in the backdrop of current challenging economic and business environment and decided to keep increasing at the end. We will continue to service the U.S. market from India. All other CapEx project in India are progressing as per schedule.

Now let me throw some light on our branding expenses. Last year, we have decided to strategically increase our branding initiatives across the brokerage to strengthen the BKT brand. We strongly believe that these initiative of brand building are necessary to reach the next level of growth and gain market share across geographies. Accordingly, in FY '19, we sponsored a number of events such as Kabbadi League in India, football league in Italy and France, cricket league in Australia, et cetera. These set incremental branding expenses were about 1% of our revenue.

With this, I will now move on to performance highlights. Our sales volume for the quarter was 51,304 metric tons, showing a degrowth of around 10% Y-o-Y. Our standalone revenue for the quarter stood at INR 1,217 crores, showing a degrowth of 14% Y-o-Y. This includes realized gain on foreign exchange pertaining to sales of INR 24 crores. On EBITDA front, for presentation purpose, we have shown the interest income from investment and unrealized gain of these loss below the EBITDA and realized gains foreign exchange items have been sold above EBITDA.

Accordingly, the standalone EBITDA for the quarter was a decreased INR 296 crores with a margin of 24.3%. If we exclude the incremental branding expenses, which were to the tune of INR 20 crores for the quarter, then the EBITDA comes in at INR 315 crores with total margin of around 26%.

Other income for the quarter stood at INR 72 crores, which includes net gain on foreign exchange to the tune of INR 42 crores, and other income from investment of INR 29 crores. Out of INR 42 crores, the realized gain is INR 28 crores and unrealized gain is of INR 14 crores. The profit after tax for the quarter was recorded at INR 176 crores.

We are a 0 long-term debt company. Our cash and cash equivalents were INR 1,162 crores, implying our net cash position on the long-term side. The Board of Directors has declared an interim dividend of INR 2 per share. That is all from my side, and I now leave the floor open for question and answer. Thank you.

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Questions and Answers

Operator [1]

(Operator Instructions)

The first question is from the line of Ashutosh Tiwari from Equirus.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [2]

Sir, can you throw some light on what kind of volume or share sum from OTR segment and Agri segment in the current quarter? And how much is the volume growth or decline in both the segments?

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

So from OTR segment, the volume was around 36%. And agriculture was around 60%, and 4% was basically ATV and lawn and garden.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [4]

Okay. So OTR is -- the volumes there fairly remain flat or there's some decline over there?

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

Yes. We can increase on quarter-on-quarter by 10%.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [6]

10%. And our decline was in agriculture volumes?

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

Agriculture has declined by around 2% to 2.5%.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [8]

So the decline is 10% on the overall level, right?

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

Yes. But note that the ASP is larger in agriculture segment. So while in terms of percentage, it looks, but in terms of overall number, it is more.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [10]

No. No. No. I know. I'm talking about in terms of Y-o-Y decline in agricultural volumes.

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

Yes. So.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [12]

Because 2% was the agriculture?

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

2%, yes.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [14]

But if there is an order...

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

Are you giving me a feedback?

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [16]

Sir, the decline in shares are not the absolute volume decline. That would have been higher than 10%, right?

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

Yes. That's right. No, Ashutosh, I didn't get your question.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [18]

Sir, I'm asking about the agriculture volume of last year Q1 versus this year Q1. Decline must be 10% if you're seeing 10% growth in the OTR volumes.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [19]

Yes. Yes, you're right. Yes.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [20]

Okay. Secondly, can you provide some color on the mining tire, the [ultra large] tires, how are they progressing in terms of volumes? Which are the geographies we are getting some more traction?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [21]

We have -- well, progress is going on as we expect it. As Bansal Ji just said that the growth is -- in this sector is around -- approximately around 10%. So the large contribution of that is coming in from the mining tires.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [22]

Okay. And lastly, sir, part of Bhuj CapEx you cover on, INR 150 crores all also towards the U.S. mixing -- this is included in mixing plant. So will that also will be discontinued and that also would happen or?

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

No. Not INR 150 crores. It was basically INR 100 crores for the mixing plant and INR 50 crores was for the warehousing. So that INR 100 crores, it was not mainly -- or only for the U.S. plant. In any case, so we needed mixing capacity in both plants, and we thought that this would also for the purpose of our U.S. plant in the initial years. So that expenditure will continue.

Operator [24]

(Operator Instructions)

The next question is from the line of Vimal Gohil from Union Mutual Fund.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [25]

Sir, firstly, could you just give us some breakup on the geographical volumes?

Unidentified Company Representative, [26]

Yes.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [27]

From Europe, U.S., RoW and India?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [28]

So Europe is around 49%. And U.S. is 17%, India is 22% and balances are rest of the world.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [29]

Okay. Right, sir. Okay. And then what would be the breakup between OEM and replacement this quarter?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [30]

Yes. So OEM is around 27% and replacement is 71%.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [31]

Right. Sir, if you could just update us, what would be the total CapEx now after the U.S. -- we've temporarily halted that. So what would be the CapEx number for FY '20, the updated number?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [32]

FY '20, it is expected to be around INR 6 -- between nINR 600 crores.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [33]

Okay. Okay. Okay. And when do you expect the U.S. CapEx to start?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [34]

We don't see that project coming up in the foreseeable future.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [35]

Okay. Okay. Right. All right. Sir, I just wanted to understand one thing on the -- on the -- on your cost differential versus the industry. Will you want to highlight some -- how do you -- are placed in terms of your cost structure versus the overall industry or some of your peers?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [36]

Yes. So basically, we have placed over our peers on 2 fronts. One in manpower hour cost. So in our case, the manpower cost is around 5% to 6% of the revenue, whereas for our peers, it is around 27% to 28%. And second, cost arbitrage lies in selling and distribution cost since we do not have any warehouses and stock points outside India and most of our sales happens from India, so our selling and distribution cost is in the range of 4% to 5%, whereas for our peers, it is in the range of 15% to 16%.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [37]

Do you expect these tailwinds or the order rates to continue for a foreseeable going forward?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [38]

Yes.

Vimal Gohil, Union Asset Management Company Private Limited - Research Analyst [39]

I mean what are the aspects given your peers could probably set off your -- and you foresee those risks playing out in the longer term?

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

See, it's -- everything is open. Anyone can go and set a plant in any part of the world. But so far, it has not happened. So on this basis, we can say that we know that possibility exists, but we don't see it coming across in the foreseeable future.

Operator [41]

(Operator Instructions)

The next question is from the line of Siddhartha Bera from Nomura Securities.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [42]

Sir, my first question is on the volume outlook. So in the presentation, you have indicated, we still maintained our volume outlook at 3% to 5%. Now given the weakness in fourth quarter, and like you had started by saying that the outlook remains challenging, so what do you think can be a realistic number for FY '20?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [43]

So we are maintaining our guidance, and we are hoping that we will be achieving our guidance. And this is mainly on this basis that because of the current business -- subdued business environment, the channel inventory has come down drastically. So this would be filled up in the later part of the year, both particularly in the second half. And that is where we are seeing the recovery. We saw the similar trend last year also.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [44]

Okay. But current view from numbers, how much is currently maintained now and how much you plan to take it up?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [45]

I do not know how much they keep but for different -- but it is almost 50% of the normal level.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [46]

Okay, sir. Okay. Got it. And second, sir, the average realizations have continued to drop sharply for the last 2 quarters, while in this quarter you indicated that OTR has grown, which I assume that will be a better margin -- or for a better utilization product. So just wanted to check why the utilization have continued to decline. And I mean, what is the key reason? And when can we see some improvement?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [47]

So it can happen on account of 2 things. Firstly, some pricing action. So on account of reduction in raw material prices, we have passed on the benefit to the customer. And second, and we think the main reason is unfavorable currencies. So during first quarter, our average conversion rate for euro was around INR 78, whereas in the previous quarter, the March quarter, it was around INR 81 -- INR 80 to INR 81. So because of these 2 things, so the -- it has a decline.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [48]

Okay. But sir, I thought that your hedges are around that INR 80 to higher?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [49]

For the full year, it would still be INR 80. But it is not evenly spread across for the quarter.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [50]

Okay. Got it. And sir, lastly, on the branding expenditures which you have separately highlighted as INR 220 crores for the quarter. I see, annually last year also, in FY '19 also, we had spent nearly 5% of our revenues and branding expenditures close to INR 300 crores. So is this INR 20 crore over and above the spending which we had done last year?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [51]

This INR 300 crores which you are referring is all our selling, distribution, advertisement, participation in the various [peso] exhibition, sales promotion, distribution of merchandise, et cetera. What we are trying to highlight that between last year and now, there has been some incremental expenditure on account of sponsoring certain sports events. So we just want to bring it to the attention to everyone that because of this, there is some pressure on the margin. But otherwise, the earning efficiency of the company is being maintained.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [52]

Okay, sir. Got it. But these sports events, which we had spent in the last quarter of -- I mean any color if you can give? These will be there in Q2, Q3 also in some -- on the order form or?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [53]

Yes. It will be there. It will be there for next 2, 3 years. And it will be covered up between 4% to 5% of our total revenue, although the expenditures will be taken care of.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [54]

Okay. Okay. And lastly, sir, on the commodity side, if you can indicate how much of the commodity benefit is in the -- in 1Q numbers? And how much more can we expect for the remaining few quarters?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [55]

So I think a lot more is yet to come because the crude prices have come down in the last 15, 20 days or in a month, so the benefit of which will start flowing in the current quarter and subsequent quarters. And even the natural level prices have also come down, so the benefit of which will be seen in the current quarter and subsequent quarters.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [56]

Okay. Sir, what will be our current [book --] towards basket commodity, basket prices if you can...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [57]

So for the current quarter, RM cost [towards INR 111.]

Operator [58]

The next question is from the line of Kaushal Maroo from DSP Mutual Fund.

Kaushal Maroo, [59]

So I have a question with regards to the deployment of the CapEx in the U.S. In the past, you've mentioned that this was critical to gaining market share in the U.S. So with this deployment, what are the outlook for us in terms of growth and market share in the U.S. now?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [60]

Yes. So basically, it was meant for OEM customers, okay? So while we continue to supply them from India, we thought that by having a plant that we can increase our traction and -- in volume with them. But when we put everything in the perspective and see it from various angle, we realized that it would not be

prudent to go ahead with this plant and so -- while we will continue to service OEs from India, which is happening.

Kaushal Maroo, [61]

So doesn't that reduce the growth outlook for you in the U.S. market because your OE customers, since you were looking to break through with this plant, will not happen now in the time line you earlier thought?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [62]

No. No. As I said, we will continue to service OE customer as we have been doing currently from India. And so if you see our thought process, we are not very much dependent on OE. Our focus is always on the replacement market. So we realize that it will not have significant impact on our growth prospects in the U.S. market and in the short-term.

Kaushal Maroo, [63]

Okay. Sir, and the second question is with regards to the pricing environment. Is that -- is the price reductions is happening just passing on all these cost benefits? Or is it much more than that, because the margins have also come off?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [64]

It is less than the cost benefit which we are getting.

Kaushal Maroo, [65]

Okay. So then this margin, which you've seen in this quarter, with the current commodity tailwinds, which we'll have and the benefit of the Carbon Black plant, should we expect margins to be sequentially higher from hereon?

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

Yes. Definitely.

Operator [67]

(Operator Instructions)

The next question is from the line of Govind Agrawal from Alfaccurate Advisors.

Govind Agrawal, [68]

Bansal, I have a couple of questions. First is on this -- your strategy for next 2 to 3 years, you just merited that your India share is now 22% and rest of the world works out to nearly 12%. So in view of the slowdown in Europe and maybe U.S., assuming it continues, what is your target to take the shares of India and rest of the world?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [69]

So we are doing it one -- towards that variable. We see opportunities. We are just encasing it and exploring it, and more particularly, when we have a lot of capacity with us, okay? So with that perspective, wherever we see opportunity, we are just encasing. So if the same trend continues, then probably this 22% could go to 25%, 26% in 2 years' time.

Govind Agrawal, [70]

Okay. Right. Understood. My second question is on the CapEx. So what I analyzed is after a large CapEx of nearly INR 2,000 crores during the years of 2013, '14, '15, are the same. So we saw significant improvement in the margins from 18%, 19% to around 30% kind of thing, which led to your ROC improving from 16% to 22%, 23% also. And you are in CapEx mode again, so if I add up the numbers, so if INR 500 crores for your Bhuj plant has additional 5,000 tons, INR 500 crores for the Waluj plant and around INR 425 crores for Carbon Black, right?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [71]

Correct.

Govind Agrawal, [72]

So with this, where do you see the margin? Do you think -- can it go to -- from 30% to 33%, 35% over next 2, 3 years?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [73]

No.

Govind Agrawal, [74]

So some improvement, I think, because most of the capital that we...

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [75]

Even the last CapEx had no correlation with the margin. The margin improved because of so many things. One was currency depreciation, Indian product mix and because of the inflation. So raw material prices increased, so as a result of the increased selling price. So there is no direct correlation between CapEx and the margin.

Govind Agrawal, [76]

I see.

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [77]

So with this incremental CapEx, it will definitely improve the efficiency of the company, quality of the product of the company. And to some extent, margin also because Carbon Black will give around 70, 80 to 100 basis points of margin EBITDA. The large-sized OTR tires will also add something to the margin, but the number is very small, so it will not be that significant. But there will be overall improvement in the margin profile of the company going forward.

Govind Agrawal, [78]

Right. So -- this was the third question, which is that INR 500 crores which you are spending in Bhuj plant, that extra large cap, so which is margins. How much would be higher than the overall margins?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [79]

See, first of all, the INR 500, which we are not spending on ultra, large sized mining tires. Only INR 350 crores we are spending.

Govind Agrawal, [80]

That's only INR 350 crores?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [81]

Yes. INR 100 crore is going for mixing and INR 50 crores is going for warehouse. And that large -- ultra sized large tires, we will have an incremental margin of around 5%, 6%.

Govind Agrawal, [82]

5%, 6%?

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

Yes.

Govind Agrawal, [84]

Okay, understood. And when do you think this entire 5,000 tons will get utilized?

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

This will -- this is expected to be completed by FY '21. And then from '21, '22, we will start producing those tires.

Govind Agrawal, [86]

Okay. Understood. And my last question is on that brand promotion expenses which you said just 1% of the sales, right?

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

I said it was 1% in both the incremental expenditure.

Govind Agrawal, [88]

Correct. Incremental expenditure ones.

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

Yes.

Govind Agrawal, [90]

You mentioned 1% of revenue, right?

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

Right.

Govind Agrawal, [92]

And you expect this to continue for next 2, 3 years?

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

Right.

Govind Agrawal, [94]

So shall we assume like, say, last year, your revenue was, let's say, INR 5,200 crores, so INR 40 crores, INR 50 crores incremental expenses on this account?

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

Yes. Around INR 60 crores to INR 70 crores would be on the various branding and for sponsorship events. So it will be roughly 125 basis points percentage of our revenue.

Govind Agrawal, [96]

Right. Right. Understood. And last question is with regard to the outlook for the demand. As you have been very forthcoming in mentioning that the demand outlook has not been good, so what are the lead indicators which you look at, which could lead -- give us some insight as to if demand will recover henceforth?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [97]

So our OTR trends will exceed the commodity prices. And on agriculture, it's basically evergreen segment. So here, we see the overall agricultural activity and the food inflation. So these are the lead indicators.

Govind Agrawal, [98]

So -- but as we are seeing in EU which is your -- the biggest geography, 50%, so there are technically recession kind of scenario. So has it not impacted the demand? Assuming agri because of -- see, other factors, agri demand is normal. But since the overall economic scenario is bad, so is it not impacting the demand?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [99]

Not really, because we believe that agriculture is an evergreen segment and it is linked to the living [creatures]. So long as you, me and the creatures are there, you will need food to survive. So on demand point of view, we don't see any challenges. Yes, temporarily, because of the climate conditions and because of some other reasons, it may change. But this is not a structural kind of change which can impact the demand permanently.

Govind Agrawal, [100]

Right. I also recall when I met you a few months back in one of the meetings, you said this current environment due to China and U.S. trade wars, the business sentiments are very negative and which is leading to demand slowdown. So how much of that would have contributed to this volume slowdown in this quarter? And do you expect this to continue?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [101]

Very difficult to say that. But in our case, our -- despite all these things, our U.S. sales is being maintained. So it depends [that we are wish to] interpret because we always gain market share, and that is -- it's still holding good for our company. But if you go by the OEM performance, you will realize that the overall market contraction is about 20% to 25%.

Operator [102]

The next question is from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik, [103]

Yes. My question is more on the macro front. We've been listening to commentary from BASF and all these local agri players. They are projecting a slowdown going forward. Given that we are heavily exposed to that segment, what is the way forward? And do you have a strategy in mind to diversify from Agri to OTR? And what percentage, if that would be?

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

See, I mean we expect to do a review. As I just now explained to Mr. Agrawal, one thing of his concern that agriculture is a stable kind of segment and it is non-cyclical in nature. It is linked to the living growth, yes, So I don't see that agriculture demand, per se, is operating permanently. There could be short-term challenges, which will not last for a long time.

Lokesh Manik, [105]

Okay. Okay. And diversification to OTR, you maintained the same ratio 60:30 on...

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

Yes. I mean we are -- as I also said in my (inaudible) that we are not leaving any stone unturned in terms of exploring the opportunity. So wherever we see the opportunity, we are exploring it. And here, we are completely focused on agriculture segment. And now, we are also paying a lot of focus to OTR segment. So there also, we are trying and -- trying to grab the opportunity.

Lokesh Manik, [107]

Okay. So are you getting any -- are you seeing good outlook in the African or the Middle East continents? I mean any feedbacks you're getting from there in the agri front? Will both will be the next driver for agri down 5, 10 years down the line?

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

Yes. I mean, like Africa and which other continent you said?

Lokesh Manik, [109]

Middle East.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [110]

So both these regions are also -- there is economical challenges across the globe. That's why we are strengthening our network and our distribution, and we are making new routes. And that's why we are quite hopeful that we are able to continue to take the drive. They will be the drivers in the coming years. But at this moment, all other economies is very uncertain. So short-term, mid-term could be a problem, but long-term, they will become the drivers. We are working towards that.

Lokesh Manik, [111]

Okay. Because my question is actually back on -- back of reading MRF's report where India reaching good growth in exports, and specifically attributed to Middle East, Africa. So although given that they have settled down obviously in most of the tire segment and not only in OHT.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [112]

Yes. Certainly is that so we are to see which segment you are talking to. We don't see, short -- I mean in the last quarter or the coming quarter to be the equitable issue, I mean, growth rate in Middle East and Africa region. But in the long-term, they will be -- we stand by that will be our drivers, and we are working towards that.

Operator [113]

(Operator Instructions)

The next question is from the line of Ronak Sarda from Systematix Shares.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [114]

Sir, apologies if you answered this question earlier. Sir, when you say U.S. CapEx has been temporarily put on the back-burner, what should we look out for? And when can this -- when will this CapEx be part of your overall long-term strategy?

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

So I think you missed the conversation. I said that in the foreseeable future, we don't see any possibility of taking it back on the agenda.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [116]

Okay. Because the wording of the...

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

Yes. We said that we kept it at the end. But at the same time, I'm saying that in the foreseeable future, we don't see any possibility of it coming back.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [118]

Okay. And the second question is on your commodity cost, if you can just highlight how is your natural rubber, synthetic rubber and Carbon Black pricing moves? Quarter-on-quarter or Y-o-Y or any number is...

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

I do not answer direct pricing. But I can tell you the direction. So directionally, they are coming down. And now since even you would have seen that the [crude] is around 56, 58, which has happened in the last 15, 20 days. So going forward, there is a further reduction in the raw material prices. Given that material resources has also come off, so we will get the benefit of that in the coming time. So going forward, the raw material prices will be lower.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [120]

Sure, sir. Sure. And sir, last question is on the CapEx then. If you can just highlight what will be the CapEx for FY '20 and '21 based on the new project time line?

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

So around INR 600 crores will be in the FY '20. And around INR 500 crores to INR 550 crores would be in FY '20.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [122]

'21.

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

Sorry, '21. I'm sorry.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [124]

Okay. This includes maintenance fees?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [125]

Yes. This includes maintenance fees.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [126]

Okay. With Carbon Black, the first phase has been included in that?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [127]

Yes. Yes. Yes. But only first phase is done. The other -- second phase is also work in progress. So some money has also been spent on that.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [128]

Is it just an update on your Carbon Black project? I mean, the fact that everything is going as per plan and scheduling the initial plans and R&D satisfactory or?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [129]

Yes. Yes. It is very much satisfactory. The quality has been above our expectation, I would say.

Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [130]

Okay. So no -- I mean, no glitches in terms of sourcing?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [131]

No. No. Nothing. Absolutely nothing.

Operator [132]

The next question is from the line of [Urumil Rajan] , (inaudible).

Unidentified Analyst, [133]

I have 2 questions. One is, you were mentioning about the challenges around market abroad. You have also been trying to sell in India. Does it make sense to put effort in get some higher share in India to offset the challenges abroad?

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

Yes. That is what we are doing. We are already doing it.

Unidentified Analyst, [135]

So a greater push to open because you have a lot of capacity already.

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

Yes. Also, we are not leaving any -- and missing any opportunity. Wherever we see a good business opportunity, we are just trying and grabbing it.

Unidentified Analyst, [137]

In India also?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [138]

Yes. Of course.

Unidentified Analyst, [139]

Sir, the second question, you were mentioning about the raw material prices coming down. Will that mean any inventory losses for next quarter?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [140]

No. Now we are not getting huge inventories because we also taken you -- whenever we see that the trend is downward. We do not accumulate huge inventory. So I don't see any kind of inventory loss coming up in our second quarter or subsequent quarter.

Operator [141]

The next question is from the line of Prashant Kothari from Pictet Asset Management.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [142]

A couple of questions. What I've been trying to understand the scene in the U.S. CapEx. What assumption actually changed that? What is that you couldn't get the right pricing, you couldn't get the right cost structure or you couldn't get the right market share?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [143]

There are a couple of things. We view each and every aspect of the business, the current market conditions, the profitability, the scaling up and the utilization level, et cetera. And we track some of it, particularly when the market is looking down. So we can't expect to do much with the OEMs. So after considering the various expects, we realized that it will not be in the larger interest of the company to go ahead with this project now.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [144]

So you believe that the tough market conditions will last many years till -- not just temporary?

Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [145]

Yes. And the main thing was to service OE customers, which we will find out a strategy to service through India, we have been doing currently. We're also around in U.S., which we are using to service them. So we will work on that, and we will try to strengthen that channel to do away with the U.S. plan.

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [146]

Also, just to add on to that, just to clarify, the -- we see the demand being real choppy during the short term. The long-term opportunity is coming back to the demand. So just to clarify that.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [147]

Yes. But your factory would not have come up in months time, right? It would have taken a couple of years to come up. So by then, you would expect the demand also to be better than what it is currently?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [148]

No. Demand would have come back, but in today's scenario, there's a lot of uncertainties there, so that's always (inaudible). And then we can take a call. In the meantime, as Mr Bansal said, that for the OEs and all that, we have warehouses from which we are servicing. So we are looking at the possibility to really get that traction there. And then -- so that's what we just evaluated our time on that.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [149]

So my question is that it's a cyclical business out there, and if you invest in good times, by the time your factories come out, it will be bad times again. Is it better to maybe invest in bad times so that we can rebenefit when the good times come?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [150]

Yes. We are servicing the market through warehouses. And also, that will anyway come up, so it's not -- if you look at the angles right, it wouldn't make any difference from that angle whether we manufacture there or we have warehouse where we are servicing. So it sounds like we are not going to invest in the -- I agree with you. We invest in bad times to reap benefits. So we are doing that. But what we are not doing is taking the whole step forward of the plant because as Mr Bansal said, the other cost structure that we had estimated or expected versus the cost structure that the proposals which are coming back was not in line with our expectations. And just looking at those numbers we are taking on. We'll take a call on that at a later date and reevaluate it later. At this moment, we've taken on already at the end.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [151]

Okay. And these next question is just on the near-term demand profile. What you have seen in the kind of last few months is that there has been a big heat wave in Europe. And there is again a concern on this. So

you have been exposed part of the U.S.? Is that not impacting the offtake for you because your guidance still remains what it was?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [152]

Because that is -- well, the number that you see, we have taken into account this effect, so we are down roughly 10%.

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

Yes. So it is impacting. That is why our growth expectation has been reduced at 2%, 3% to 5%, otherwise, in the normal business environment, we grow between 12% to 15%. So it has impacted. But still, we are outperforming and gaining the market share in other regions. I can see that my U.S. performance or U.S. sales number are almost maintained.

Prashant Kothari, Pictet Asset Management Limited - Senior Investment Manager [154]

Okay. Sir, when you are declining by 10%, what do you think the market would have done? Like has it declined?

Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [155]

It would be down by around 25% to 30%.

Operator [156]

(Operator Instructions)

As there are no further questions, I would now like to hand the conference over to management for closing comments.

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [157]

So thank you, everyone, for joining this call, and have a good evening.

Operator [158]

Thank you, Nishant. On behalf of ICICI Securities, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.

