

## Transcript

### Conference Call of Balkrishna Industries Limited

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#### *Question and Answer Session*

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**Moderator:** Good evening ladies and gentleman. Welcome to Balkrishna Industries O4 FY14 and Full Year Results conference call hosted by HDFC Securities Ltd. At this moment, all participant lines are in listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr. Sorabh Talwar of HDFC Securities Ltd. Please go ahead, sir.

**Mr. Sorabh Talwar:** Thanks, Moumita. Good afternoon everyone. On behalf of HDFC Securities I welcome you all to the post-result conference call of Balkrishna Industries. I also take this opportunity to welcome Mr. B.K. Bansal, Director Finance, Balkrishna Industries. Without wasting much time I now invite Mr. Bansal to make some opening comments and thereafter you can put it for the Q&A. Over to you, sir.

**Mr. B.K. Bansal:** Thank you Sorabh. Good afternoon everyone. I welcome you all to this post-result earning call of our company. I'm joined by (not sure) team. At the outset I am happy to say that the company has achieved a record sales volume of 40,823 metric ton in the current quarter and this is the highest ever achieved by the company in any quarter? With this achievement we have surpassed our annual volume guidance of 140,000 metric tons and we have closed our annual sales at 142,567 metric tons. The growth has some across all the segments and geographies. Our revenue for the year ended 31<sup>st</sup> March 2014 stood at Rs.3536 crores net of excise, a growth of around 11.43% over previous year. The EBITDA for the year was at Rs. 908 crores, around 26% of sales. We expect the margins to move around the same range in the coming year as well considering the stable raw material prices and good exchange rates.

The average rubber price for the company has broadly been in the range of 2200 to 2500 US dollars per ton for the year. We are maintaining a rubber inventory of around 1.5 to 2 months. The net profit for the year was at Rs.488 crores, which is around 14% of sales showing a growth of approx 38% over previous year. The EPS of the company has also increased from Rs. 36 to Rs. 49 per share, a growth of approx 36%. I am also happy to share with you that the company has recently completed refinancing of one of the ECB of \$100 million at a reduced rate of interest, which will result into annual saving of interest to the tune of 5 to 6 crores rupees. I'm also happy to share with you that the refinancing of another ECB of \$175 million is in process and once it is completed the company expects to save another 5 to 6 crores rupees per annum on account of interest.

Now I would like to take you through the key industry updates. A strong demand is being witnessed across the geographies and in all the segments, especially in highly mechanized agriculture regions with high equipment rates, strong momentum is visible in infrastructure and mining segment demands. The company is already well penetrated on the agriculture front. The focus in the years to come will also be to increase our exposure in industrial construction and mining segments. The market for this variety of tyre is used and we see a lot of scope going forwards in this particular segment. On geographical front we are experiencing good growth in Europe and US. At the same time we are increasing our market share in other existing geographies and also penetrating into developing markets, particularly CIS, Russia and India. On OEM our penetration strategy has started yielding results and we are gradually moving forward on that front.

Now I would like to talk about our Bhuj plant. The work at Bhuj plant is going well. Till March 2014 we have incurred CAPEX of around 2250 crores and the total capitalization as of March 2014 stands at around Rs. 1700 crores. Post these expansions the achievable capacity of the company would reach to 300,000 metric tons. Now, on our de-merger, we're progressing as per schedule. Company has already got approval from the stock exchange and now we have filed a case with the High Court for its approval.

I will now talk about our outlook for 2014-15. As discussed earlier we are witnessing sign of recovery globally and are confident of doing better in the next year. The company is making efforts across all fronts to tap the existing opportunity as well as future opportunities. We announced our annual sales guidance of around 160,000 to 165,000 metric tons for the year 2014 and 2015. With this, I now open the floor for the questions. Thank you.

**Moderator:** Thank you, sir.

*Question and Answer Session*

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**Moderator:** Ladies and gentlemen, we 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.

Sir, our first question comes from Jay Kale from IDFC Securities. Please go ahead.

**Jay Kale:** Yeah, thanks for taking my questions. Sir, congratulations for a good set of numbers.

**Mr. B.K. Bansal:** Yeah, thank you.

**Jay Kale:** Sir, my first question pertains to the market share. Would you just give some indication how your market share has moved in FY14 over FY13 and in particular in Q4 have you seen a spurt in market share given your increased volume?

**Mr. B.K. Bansal:** See, it is very obvious when our overall volume increases so it results in the increase in the market share. I may not be able to give you the market increase on quarter on quarter basis, but as I said as it increases definitely the market share also increases. Currently, as on 31<sup>st</sup> March 2014, it stands at around 5%-6%.

**Jay Kale:** Okay. Sir, any target aspiration of where you would like your market share to be around two-three years down the line.

**Mr. B.K. Bansal:** Once this goods capacity is fully utilized I think we would be around 8%-9% of the overall global market.

**Jay Kale:** Okay. Sir, secondly you have projected a volume growth of around 12%-13% for FY15. Now, what would be the drivers of this growth in terms of geography and segment? I mean, do you see Europe and America driving the growth and do you see the replacement segment driving or the OEM segment driving the growth?

**Mr. B.K. Bansal:** It will be a mixture of everything. Currently we are seeing good growth from the Europe region and US is yet to respond. Plus we are also penetrating into new geographies like Russia and (audio break) where our share has increased already from 12% to 20% currently, so we are working on all those fronts and all of that will contribute to this volume increase.

**Jay Kale:** Okay. Sir, and in terms of replacement volume, I believe the replacement growth would be lower than 12% and it could be largely driven by OEMs?

**Mr. B.K. Bansal:** Sorry?

**Jay Kale:** The replacement growth for FY15 will be lower than the company average of 12%...?

**Mr. B.K. Bansal:** No, I mean, the overall percentage of replacement vis-à-vis OE, it would be more or less similar to what it is in the last year. So it stands at around...75% is the replacement market, 20% is OE and 5% is our off-take sales. So broadly this will remain same.

**Jay Kale:** Okay. Sir, regarding the pricing action, has there been any pricing action in any of the market in response to the benign raw material prices?

**Mr. B.K. Bansal:** Yeah, definitely. We have taken a price cut of around 4%-5%.

**Jay Kale:** Okay. This was in?

**Mr. B.K. Bansal:** This was effective from April.

**Jay Kale:** Effective from April, okay. Sir, and your radial tyre contribution, how much would that be currently and what is the targeted level after the full expansion?

**Mr. B.K. Bansal:** Currently the radial tyre contribution is around 30% of total volume. Going forward it will increase gradually. After two-three years I think it will increase to 40%.

**Jay Kale:** Okay. And is this the industry average?

**Mr. B.K. Bansal:** Yeah, industry average is currently I think around 30%. We are moving along with the industry average.

**Jay Kale:** Okay. So this would be typically high realization product, right, 10%-15% premium for your normal...

**Mr. B.K. Bansal:** Not 10%-15%, but, yes, you know, 7%-8%.

**Jay Kale:** Okay. Right. Sir, how much would be the dealer inventory currently in Q4?

**Mr. B.K. Bansal:** Dealer we would not know, but I think they are maintaining a very thin inventory level, so they would have inventory of not more than two months.

**Jay Kale:** Okay. Sir, regarding American geography, it was expected to grow substantially as far as the mining tyre segment, however, that has not really responded, I mean, last two years I've seen a decline, so is it mainly to do with agricultural tyres or the mining tyres are not picking up as expected? What has been the reason for this decline in American geography?

**Mr. B.K. Bansal:** See, US is yet to respond and in the backdrop of the overall recovery in the US market, I think that should happen very soon and it should happen not only in the agri segment, but also in the mining segment and this time the winter is expected to be very strong, which will be a good news from agri tyre perspective, so I think in times to come US will respond very well and for us OTR is one of the big growth drivers where our presence is very negligible, so even if the incremental demand does not come up from the US region we will have opportunity to sell OTR tyres once we are able to produce those tyres.

**Jay Kale:** Okay. Sir, your market share would be 4%-5% across all geography or is it particularly high...

**Mr. B.K. Bansal:** No, no. This is globally. Geography-wise it would be different.

**Jay Kale:** Okay. So, if you can just give a broad sense Europe and America...

**Mr. B.K. Bansal:** No. Actually, you know, there are no authentic data available, which suggest the market size of Europe and US. The global size is expected to be around \$15 billion and our share is \$600 million, so it is roughly 4%.

**Jay Kale:** Okay fine sir. Thanks a lot. That's all from me and all the best.

**Mr. B.K. Bansal:** Yeah, thank you.

**Moderator:** Thank you, sir. Our next question is from Abhijit Dey from BNP Paribas Mutual Fund. Please go ahead.

- Abhijit Dey:** Good evening, sir.
- Mr. B.K. Bansal:** Good evening, Abhijit.
- Abhijit Dey:** Yeah, and congratulations on a good set of numbers.
- Mr. B.K. Bansal:** Thank you.
- Abhijit Dey:** Just wanted two or three things, housekeeping questions. What is the production, sir, for fourth quarter?
- Mr. B.K. Bansal:** Production for the fourth quarter was 40325 metric tons.
- Abhijit Dey:** And if I could ask what was the production volume from the Bhuj plant in FY14?
- Mr. B.K. Bansal:** FY14 Bhuj would have produced, one second, around 15,000.
- Abhijit Dey:** Fifteen thousand, 1-5?
- Mr. B.K. Bansal:** Yeah.
- Abhijit Dey:** And lastly, sir, you just mentioned you have given a price set of 4%-5%, which was in April, in which geography are you talking about?
- Mr. B.K. Bansal:** It was across.
- Abhijit Dey:** Across all the regions you're saying?
- Mr. B.K. Bansal:** Yeah, across all the geography.
- Abhijit Dey:** Okay. Thank you, sir, and all the best.
- Mr. B.K. Bansal:** Thank you.
- Moderator:** Sir, our next question is from Prakash Kapadia from ialpha Enterprises. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. Congratulations on a good set of numbers.
- Mr. B.K. Bansal:** Thank you.
- Prakash Kapadia:** Sir, two questions from my side. Synthetic rubber is trading at a slight premium to natural rubber over the last few months, which is against the norms, which we have seen, so any plans of stocking up natural rubber, what is our outlook and secondly if you could give us some sense on Europe. Europe's contribution to overall sales has increased in FY14, so what has lead to this growth and is this kind of growth sustainable because economic signs in Europe are not so strong, at least what we hear and read.

**Mr. B.K. Bansal:** Yeah, what you say could be correct, but as far as our segment is concerned we are getting good response from the Europe region and historically also Europe has been a very strong market for us, so we are very confident and bullish as far as Europe market is concerned. And about this synthetic rubber prices, yes it has been higher and it is strange. I don't know if it is just the market because natural rubber prices have been very low.

**Prakash Kapadia:** Absolutely and at least over the last few years this kind of a trend has not been seen.

**Mr. B.K. Bansal:** Yeah and synthetic rubber prices, you can say has been stable, though it is that natural rubber prices has gone below synthetic rubber prices rather than seeing it this way that synthetic rubber prices has gone up against the natural rubber prices.

**Prakash Kapadia:** Okay. So, we don't see an uptake nor we are saying we would, like, increase inventory given the fact that synthetic rubber...?

**Mr. B.K. Bansal:** No, no. I think this is a temporary phenomenon and which should correct soon.

**Prakash Kapadia:** Okay, sir, fine. Thank you and all the best.

**Mr. B.K. Bansal:** Thank you.

**Moderator:** Thank you, sir. Sir, our next question is from Gautam Kainth from Valuequest Capital. Please go ahead.

**Gautam Kainth:** I have just one very basic question. Can you give a sense of what is the regular maintenance profit for you at the company level?

**Mr. B.K. Bansal:** Amongst three plants it will be around 60 crores and going forward when once Bhuj is fully operational then it may increase to around 80-100 crores.

**Gautam Kainth:** And, sir, at a high level, what would be the typical life of a plant (not clear).

**Mr. B.K. Bansal:** It depends, you know. It is very subjective. Different kind of equipment has got a different life, but generally I would say it is more than 15 years.

**Gautam Kainth:** Okay. Thank you, sir.

**Moderator:** Sir, the next question is from Mr. Sumanta Khan from ICICI Pru Life. Please go ahead.

**Sumanta Khan:** Good evening, sir.

**Mr. B.K. Bansal:** Yeah, good evening.

**Sumanta Khan:** Just wanted to know in your revenue mix what percentage of sales would be euro dominated and what percentage would be dollar dominated?

**Mr. B.K. Bansal:** It is 50-50.

**Sumanta Khan:** And what would be the average realization this quarter for both the currencies?

**Mr. B.K. Bansal:** Average realization for this quarter has been 252 rupees per kg.

**Sumanta Khan:** I'm asking about the currency, what currency did you book your revenues for euro and dollar?

**Mr. B.K. Bansal:** See, dollar we do not hedge because dollar we enjoy natural hedge and euro is what we had hedged, so that was at an average rate of 75 for the full year. Quarter-wise I do not have numbers right now available with me.

**Sumanta Khan:** So, next year what would be the hedge at?

**Mr. B.K. Bansal:** It would be 87 as against 75.

**Sumanta Khan:** And this is, like, for the entire amount?

**Mr. B.K. Bansal:** Yeah, entire our euro is booked at 87.

**Sumanta Khan:** Okay, sir. Thank you.

**Moderator:** Thank you, sir. Sir, our next question is from Jiten Doshi from Enam Asset Management. Please go ahead.

**Jiten Doshi:** Congratulations Bansalji for a wonderful performance.

**Mr. B.K. Bansal:** Thank you, Jiten Bhai.

**Jiten Doshi:** Bansal Ji it is very heartening to now we going to different markets and Russia is a new market that you have chosen to go, how big would be the Russian market, Bansalji?

**Mr. B.K. Bansal:** It is very big, but I will not be able to quantify it, but it's a big opportunity, particularly from the mining and construction perspective.

**Jiten Doshi:** Excellent. And gradually you see yourself gaining every year some small volume growth in Russia?

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

**Jiten Doshi:** Okay. And another thing is, Bansalji, for our margins, now these levels are pretty sustainable, no?

**Mr. B.K. Bansal:** Yes, yes.



**Jiten Doshi:** So we are not seeing any decline in margins going forward.

**Mr. B.K. Bansal:** No, no. At least I don't see it for the next two years.

**Jiten Doshi:** Excellent. And going forward now, basically we will have a very, very good cash generation, so going forward there should now be some debt repayment in the current year also, no?

**Mr. B.K. Bansal:** Yeah, it is already lined up; it is already lined up. So it is, you know, beginning from financial year 2015-16 and with that four consecutive years will be, you know, debt repayment, so by 2018-19 the company will be completely debt-free company that is long-term debt.

**Jiten Doshi:** Okay excellent. And you have seen some improvement in working capital?

**Mr. B.K. Bansal:** Yeah, working capital levels are almost same. There is no change either side, neither it has increased, nor it has decreased. It is stable I would say.

**Jiten Doshi:** Okay. Wish you all the very best, Bansalji. Wish you all the very best.

**Mr. B.K. Bansal:** Yeah thank you, Jiten Bhai.

**Jiten Doshi:** Thank you.

**Moderator:** Thank you, sir. Ladies and gentlemen if you have any questions, please press \* and 1 on your telephone keypad.

Sir, our next question is from Nikhil Deshpande from Sharekhan Limited. Please go ahead.

**Nikhil Deshpande:** Good afternoon, sir.

**Mr. B.K. Bansal:** Yeah, good afternoon.

**Nikhil Deshpande:** I just missed the average rubber rate you had given at the start of the call. Could you repeat?

**Mr. B.K. Bansal:** One second. I'll see if I have it. Sorry, I don't have this number right now, but I think it is around \$2200 to \$2300 per metric tons.

**Nikhil Deshpande:** Okay, sir. That's all from my side. Thank you.

**Moderator:** Thank you, sir. The next question is from Vineet Hetamasaria from Bharati AXA Life Insurance. Please go ahead.

**Vineet Hetamasaria:** Good evening, sir.



- Mr. B.K. Bansal:** Yeah, good evening.
- Vineet Hetamasaria:** Congrats on a very good set of numbers.
- Mr. B.K. Bansal:** Thank you very much.
- Vineet Hetamasaria:** Now, with ECB financing, what would be our interest cost that we will be charging in the P&L for FY15?
- Mr. B.K. Bansal:** See, now on \$100 million it will be around 2% to 2.10% and for \$175 million currently it is 3%. Now, as I said, we are also in the process of getting it refinanced, so this will also come down to around 2%.
- Vineet Hetamasaria:** So, like earlier, in terms of P&L we were looking at 50-crore kind of numbers for FY15, so it should come down to roughly 40 crores now?
- Mr. B.K. Bansal:** Yeah, 40-45 crores.
- Vineet Hetamasaria:** Okay. And depreciation and guidance remains at 210 crores or is there any change there?
- Mr. B.K. Bansal:** Yeah, it will be somewhere between 200-225 crores. So what I said earlier I am still maintaining that.
- Vineet Hetamasaria:** Ideally there should be a reduction because there will be a translation gain on our...
- Mr. B.K. Bansal:** Yes, yes because of VAT definitely there will be reduction, so that's why I said it should be around 200 crores.
- Vineet Hetamasaria:** Sir, another thing on this price cut that we have taken on 1<sup>st</sup> April. Would it be completely compensated by the fall in the rubber prices or there is some hit, which we are taking?
- Mr. B.K. Bansal:** No, no hit we are taking. It will be completely offset by reduction in the raw material prices.
- Vineet Hetamasaria:** And you said euro realization would be 87 for FY15.
- Mr. B.K. Bansal:** Correct.
- Vineet Hetamasaria:** So it seems to be that in Q4 we have held at quite a good rate. Earlier we were having 84-85 as the average rate.
- Mr. B.K. Bansal:** Yes, yes. You are right.
- Vineet Hetamasaria:** But if I look at the current rate, current rate is something close to 80-81.
- Mr. B.K. Bansal:** Spot rate is 80-81, but since we are booking 12 months in advance, so if I look at whether the rate 12 months from now still it is 87.

**Vineet Hetamasaria:** If I actually look at the sport rate, which was prevalent during Q4 FY14, so that was also in the average of 84-85 only, that's why this average of 87 is a bit surprising.

**Mr. B.K. Bansal:** No, no. It depends at what rate you hedged, Q4 we hedged at around 90+ and that is why the overall average increased to 87.

**Vineet Hetamasaria:** Okay that explains it. Thanks a lot, sir.

**Moderator:** Our next question is from Kaushal Maroo from Emkay Global. Please go ahead.

**Kaushal Maroo:** Hi, sir. One of the competitors, Titan, recently came out, you know, and cut the guidance and sited some headwinds ahead in their business, would you just comment on that in light of your presence in US market are you not seeing any of those challenges?

**Mr. B.K. Bansal:** See, we would not like to comment on any of our competitors, so 'm sorry for that. As far as we are concerned I've already said that we are very confident and bullish about our growth numbers and the guidance, which we have given to you people of around 150,000 to 165,000 and accordingly we are working and the numbers are also coming according to that.

**Kaushal Maroo:** Okay, sir. Thank you.

**Moderator:** Thank you, sir. Sir, we have our next question from Ashwin Shetty from Ambit Capital. Please go ahead.

**Ashwin Shetty:** Hi, sir. Thanks for taking my question. Sir, my question was with the Bhuj coming on stream in FY15, whether there will be any increase in the overhead cost that could impact our margin?

**Mr. B.K. Bansal:** Not much, not much because our overall fixed cost component is hardly 4%-5% and that will increase in proportion to increase in the production over there, so there will not be any sudden spurt in the overhead cost, which can impact our profitability, so nothing on that front.

**Ashwin Shetty:** Okay. That's all from my side. Thank you.

**Mr. B.K. Bansal:** Yeah.

**Moderator:** Our next question is from Shraddha Sheth from Edelweiss. Please go ahead.

**Shraddha Sheth:** Good evening, Bansalji. Congrats on a very good set of numbers.

**Mr. B.K. Bansal:** Good evening.

**Shraddha Sheth:** Sir, wanted to know would you be in a position to give any volume for FY15?

**Mr. B.K. Bansal:** Too early, too early. I think I will be able to give it around third quarter, otherwise we have given the overall guidance which is around 200,000, but if you ask in accurate terms then I think the third quarter would be the right time when I can give you any numbers with more confidence.

**Shraddha Sheth:** Sir, if 200,000 we are talking today so by the third quarter we should be revising that.

**Mr. B.K. Bansal:** At least confirming that.

**Shraddha Sheth:** Sir, wanted to know about the rubber prices. Our margins have remained constant on a QoQ basis, but if we see the rubber prices have corrected by almost 25% in the last two quarters, so is there any scope of further gross margin expansion even after the price cut we have taken or it should sustain?

**Mr. B.K. Bansal:** Now, I think whatever price cut we have taken that is in proportion to decrease in the raw material prices, so I don't see a major margin expansion at the gross profit level, okay? It should be, you know, maintained at the current level, but there can be 1% or 2% margin expansion and that we will be able to say only when we actually pass the time.

**Shraddha Sheth:** Okay. Sir, but structurally as mining goes up in our overall mix, going forward even if the currency has to turn you think 25% margins will be maintained even...

**Mr. B.K. Bansal:** Yeah, definitely. There is no doubt about that, that the current level of margins will definitely be maintained and as far as mining is concerned these are high value items and also has a potential of high margin, so that will definitely lead to a margin expansion, but that will happen 2015-16 onwards.

**Shraddha Sheth:** Right. Sir, even if the currency has to turn, since we are hedged, we should be maintaining 25%.

**Mr. B.K. Bansal:** As far as currency is concerned for the current year we are fully hedged, so there won't be any impact. As far as next year is concerned we were expecting better currency realization than 2014-15, probably that may not happen and whatever we have lost for 2014-15 at least we would be able to lock that for 2015-16 as well. So there won't be any hit on account of currency appreciation.

**Shraddha Sheth:** Okay great. And, sir, lastly, since you said we will be almost, you know, debt-free from long-term borrowing point of view by April, no incremental CAPEX that we are foreseeing at least over the next two-three years?

**Mr. B.K. Bansal:** Yeah, at least for the next three years there are no major CAPEX, which are lined up.

**Shraddha Sheth:** Okay. Great, sir all the best for your further quarters.

**Mr. B.K. Bansal:** Thank you.

**Moderator:** Thank you. Our next question is from Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

**Srinath Krishnan:** Thanks a lot, sir. Sir, in US there is a section 179, which has expired, which provides benefits to farmers, like subsidies to farmers, as a result some used tractor prices have started declining. The environment has slightly weakened off late. Are you seeing any signs of weakness in sales in the agri market in US, sir?

**Mr. B.K. Bansal:** No, no, not really, not really. In fact, we are expecting good sales on agri front because of the good winter we are expecting over there.

**Srinath Krishnan:** I also wanted to understand, sir there is a another common agricultural policy in Europe where there is a cut in some sort of subsidies for France and the major western European countries, so does that really effect us, sir, in the reduction in subsidies for these market?

**Mr. B.K. Bansal:** No, no, not really.

**Srinath Krishnan:** Okay. Thanks.

**Moderator:** Thank you, sir. The next question is from Ashutosh Tiwari from Equirus Securitie Pvt. Ltd. Please go ahead.

**Mr. B.K. Bansal:** Hello?

**Ashutosh:** Yes, sir.

**Mr. B.K. Bansal:** Yes, Ashutosh.

**Ashutosh:** Sir, if it is winter it is expected to be harsh in this year and that will lead to better demand, can you explain that thing?

**Mr. B.K. Bansal:** No, winter has...

**Ashutosh:** Hello?

**Mr. B.K. Bansal:** Yeah, Ashutosh.

**Ashutosh:** Sir, you were saying that winters are expected to be harsh and that would have a positive impact on demand, so can you explain why is that so?

**Mr. B.K. Bansal:** No, winter was harsh, there was a extreme winter and lot of snow and now with summer setting in there will be a good platform for better agricultural, okay and now all that snow, etc. will be washed away and which will lead to a better agricultural activity.

**Ashutosh:** Okay, so was that also a reason why, I mean, demand was not as strong as expected in the Jan to March quarter?

**Mr. B.K. Bansal:** Yeah and overall demand on the other front like industrial, construction and mining front was subdued because there was not too much of recovery in the overall US economic environment.

**Ashutosh:** Okay, so now you are seeing that happening, is construction improving now?

**Mr. B.K. Bansal:** Yeah, but it is already due, like Europe has already responded and why US should not respond to it? So it is only a matter of time when it would start and I think it is already overdue and any time the demand should spurt in the US regions.

**Ashutosh:** Okay. Sir, one more thing on this US only, I mean, last few years OEM sales was pretty strong and there was shift which happened to the Raj Tractors and now going ahead it is expected that, there is already OEM sales have started softening and declining also, in that scenario there are many tyre players who are saying that replacement demand should pick up because of this phenomena, so do you think that this will auger well for you if the replacement demand picks up basically?

**Mr. B.K. Bansal:** Yeah, see basically our sales model is not linked to the incremental growth of the industry, okay, that is one of the basic and fundamental thing which applies to us. So last year when the OEM per say had been down, but our sales to OEM has increased from 12% to 20%, so basically our story is gaining market share and which still holds good and will continue to hold good for at least next 7, 8 years.

**Ashutosh:** Okay. So, sir that is understood. What I am saying is that because OEM sales is coming under pressure, there are many tyre players who are saying that because of this phenomena replacement demand should be higher and because our major part of sales happened in replacement market, so wouldn't that benefit us basically for the next few years?

**Mr. B.K. Bansal:** Yeah, it should definitely.

**Ashutosh:** Okay and sir, in the European market, I mean, where are we more strong, whether it is Western Europe or Eastern Europe?

**Mr. B.K. Bansal:** Basically, that way overall, but Western Europe is more strong for us.

**Ashutosh:** Okay, but are we trying to expand in the Eastern Europe also now?

**Mr. B.K. Bansal:** Of course we are going wherever we see the opportunity. See, earlier we were not able to do that because of the capacity constraint and now since capacity is on our side, we are trying to encash every available opportunity.

**Ashutosh:** Okay and sir, you talked about Russia market, in Russia also the price differential between you and the say, the major competitor would be similar to Europe or it will much lesser?

**Mr. B.K. Bansal:** No, I think it is similar, in fact it may be more, I don't know, but it can be more than Europe because the reach in those markets is still very limited unlike Europe, so the difference can be even more.

**Ashutosh:** But actually Titan acquired one company over there, I think some 6 months back and they are trying to expand, so would that have any impact as such?

**Mr. B.K. Bansal:** Not really, market is very big and it gives ample opportunity to us to grow.

**Ashutosh:** Okay sir, thank you so much.

**Moderator:** Thank you, sir. Our next question is from Kartik Mehta from Sushil Finance. Please go ahead.

**Kartik Mehta:** Good evening, sir thanks for the opportunity.

**B.K. Bansal:** Yeah, good evening.

**Kartik Mehta:** Sir, I wanted to know for FY16 have we started doing any hedging.

**B.K. Bansal:** Yes, yes.

**Kartik Mehta:** So, are we hedged for, let's say one quarter or two quarters?

**B.K. Bansal:** For first two months, because we cannot go beyond 12 months, so for the first two months the average is around Rs.90.

**Kartik Mehta:** Okay, so what you are saying that by the end of this financial year you would be also having a considerable lucrative rate of hedging for FY16, as a result of that any meaningful appreciation in our currency would not affect your margins for the next...

**B.K. Bansal:** Not at all, not at all. At least I will be able to lock the same rate at which I locked for 14-15.

**Kartik Mehta:** Okay and for FY16 volume, I mean, tentative number you have mentioned 200,000 tons. Given 300,000 tons achievable capacity your producible capacity you will be acquiring by FY15 at Bhuj in total, so what is generally the ramp up time according to you would be to scale it up to let us say 2.5 or 3 in terms of years?

**B.K. Bansal:** 2 to 3 years is the ramp up time by which we should be able to ramp up the entire new capacity.

**Kartik Mehta:** Okay, so that means at least 35,000 to 40,000 tons average volume growth should happen from FY16 onwards?

**B.K. Bansal:** Absolutely correct.

**Kartik Mehta:** Okay and the last question on the rubber pricing side, I know it is an enjoyable time for you people, but any, I mean, what is the, in terms of inventory liquidation or something are you seeing from the producers, are they under kind of panic or it is a kind of slowdown and which is genuine in nature?

**B.K. Bansal:** See, as far as this rubber prices are concerned, I think it has fallen off very significantly and in spite of lot of support from the various governments and I don't see any major correction from the current level, so prices should stabilize at around current levels.

**Kartik Mehta:** Okay, so this fall is, is it due to inventory liquidation under panic or it was genuinely very low demand and a higher supply?

**B.K. Bansal:** See, basically Bloomberg has reported that there is an excess supply to the tune of 700,000 metric tons, so supply is much more than the demand and that is what is leading to this price correction.

**Kartik Mehta:** Okay, so if there is a global recovery and OE demand picks up then probably there could be some respite?

**B.K. Bansal:** Yes, then there can be some reversal in the price trend.

**Kartik Mehta:** So, that is according to you, how many years given the present growth rate and given...

**B.K. Bansal:** Very difficult to say, but at least it does not seem to be in sight till next 12 months' time period.

**Kartik Mehta:** Okay and any risk are you seeing in terms of duty structure wise either the importing countries where we are exporting our products or on the natural rubber front or something?

**B.K. Bansal:** No, no unfavorable steps have been taken by any of the market where we are operating.

**Kartik Mehta:** And also on the raw material front?

**B.K. Bansal:** Nothing, nothing on the raw material front.

**Kartik Mehta:** Okay, that's all, thanks a lot. Good luck.

**B.K. Bansal:** Thank you.

**Moderator:** Thank you, sir. The next question comes from Aniket Mhatre from Standard Chartered Bank. Please go ahead.

**Aniket Mhatre:** Hi, sir, good evening and thanks for the opportunity. Sir, I just wanted to know what would be the quantum of debt repayment due in FY16?

**B.K. Bansal:** 58.33 million dollars.



**Aniket Mhatre:** Okay and sir, I wanted to check on this fact, you are saying that markets are expected to remain stable at least for the next couple of years, but having guided for a very good volume growth plus the favorable currency and improving mix with Bhuj ramping up; wouldn't our margins expand even for the current year?

**B.K. Bansal:** Yes, that can also happen. What I said is that, you know, at least the current margins levels will be maintained and which means that there will be a scope of margin expansion.

**Aniket Mhatre:** Sure and sir, sorry to again ask you on the same lines, but in FY16 you are saying that you can maintain your hedge rate at 87, which is FY15 level, but given that currently the INR is already at 80 I am not sure whether the forward rates would be favorable for you to get the rate as desired?

**B.K. Bansal:** Yeah, currently if I book for next 12 months, I get the same rate of around 87 and yeah, so that is the situation, because what you are seeing is the spot rates, but after taking into account the forward premium available in the market, the rate comes to around 87.

**Aniket Mhatre:** Sure, so you are saying that if currencies stabilizes at 80 levels we are sure to get 87?

**B.K. Bansal:** Yeah, because there is a forward premium of around Rs.6, Rs.7 in terms of the euro INR.

**Aniket Mhatre:** Sure. Okay sir thanks that's it from my side.

**Moderator:** Thank you, sir. The next question we have is from Ravi Shenoy from Motilal Oswal. Please go ahead.

**Ravi Shenoy:** Good evening, Bansalji.

**B.K. Bansal:** Yeah, good evening.

**Ravi Shenoy:** Nice set of numbers, sir.

**B.K. Bansal:** Yeah, thank you.

**Ravi Shenoy:** Sir, I just wanted the USD conversion rate for the current year in which we would have booked our P&L?

**B.K. Bansal:** It was different at different points in time because you know, it is open so we convert it at the spot rate, so it is very difficult to say at what rate we have converted it.

**Ravi Shenoy:** Okay, sure.

**B.K. Bansal:** Yeah, I can answer it to you separately when you call me and then I can find out and let you know.

**Ravi Shenoy:** Yes sir, I will contact you for that one and on the FOREX impact that we have in our P&L, I just wanted to understand that, that is the hedging loss that we have, 91 crores?

**B.K. Bansal:** No, that is basically a notional loss and this represents the difference between the custom rate and actual realization rate, so it is only our notional loss.

**Ravi Shenoy:** There is no hedging loss that is considered in that?

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

**Ravi Shenoy:** So, where would we be considering any hedging loss or gain?

**B.K. Bansal:** No, this is how it is reported. First in the initial stage the book, the sales at a custom rate which is a notional rate, okay and then the realization would happen either at the spot rate or at the forward rate and the difference of these two rates is recognized as exchange gain or loss and we report it separately.

**Ravi Shenoy:** Okay, I got that. On the rubber sourcing front, all our rubber is imported?

**B.K. Bansal:** Yes, because it comes duty free for us, as exporters we have access to advance license scheme whereby we are allowed to make imports without payment of duty.

**Ravi Shenoy:** Okay, thank you.

**Moderator:** Thank you, sir. The next question is from Basudev from Antique Limited. Please go ahead.

**Basudev:** Yeah, thanks sir, for taking my question. You said that you have taken a 4% to 5% price cut effective April, what was the overall quantum of price cut in FY14 in euro or dollar terms?

**B.K. Bansal:** In FY14 I think we had taken another price cut, one was at the beginning and one was in the middle of the year, so overall price reduction was around 7% to 8% in 13-14.

**Basudev:** So, if one adds that 7% to this 4%, 5%, so broadly around 12% price cut one can expect as the realization level, so broadly what I was thinking that if one sees the pricing trend for your competitors have also happened in last calendar year, so is this volume growth which you are saying is primarily a pricing led recovery you are expecting or you can say that you won't be surprised to see a 1,60,000 plus volume with this price cut getting reversed sooner than later?

**B.K. Bansal:** See, a price cut is an independent thing, whether it will lead to any kind of increased sales, I don't know. What we have projected is based on the various steps and the various growth drivers which I discussed sometime back, so those are the things which will lead to this kind of numbers.

**Basudev:** Sure and the second thing, sir as somebody also asked in the call that, what was your euro INR realized rate in Q4 specifically, because for the full year you said 75 and 87 for FY15, sir what was the rate in this Q4 per se, sir?

**B.K. Bansal:** I do not know, but it would be 80+.

**Basudev:** So, there is scope of upside or favorable realization rate from Q4 levels and 87 which can bridge the gap of this 4%, 5% price cut you mean to say?

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

**Basudev:** Sure and broadly one can say that the CAPEX for Bhuj is broadly accounted?

**B.K. Bansal:** Almost, see against 2250, we have already capitalized 1700 crores, okay, so only 500 crores something is left to be capitalized and there will be some residual CAPEX of around 200, 300 crores which would come, so everything will come in the current financial year.

**Basudev:** No, I was thinking on that angle that though your revenue booking is done at a favorable rate of 87, but with the appreciating trend of rupee as most of your gross block has been financed through foreign funding, so can there be a scene of reversal of your gross block to some extent?

**B.K. Bansal:** Of course.

**Basudev:** Can you quantify that, sir?

**B.K. Bansal:** See, I think it is, as of today the reversal is to the extent of 200 crores and if rupee appreciates further then it will come down further.

**Basudev:** So, if one takes 200 crores then FY15 overall CAPEX can be as good as the nil figure, if it appreciates further?

**B.K. Bansal:** Yeah, overall CAPEX number would come down.

**Basudev:** Sure and sir, one thing like in Q4 tax rate looks a bit on the lower side, anything specific, sir?

**B.K. Bansal:** No, nothing.

**Basudev:** Is it due to one off, sir.

**B.K. Bansal:** No, the full tax rate is applicable to us, okay. The only thing is that it is divided amongst two things, current and deferred tax. So, both put together it works out to almost full rate and if you see only current rates then because of the higher deferred tax portion that current tax rate looks little bit lower.

**Basudev:** Sure and as you said 15,000 ton Bhuj production this fiscal, presently how much percentage of the manpower there is contractual and permanent?

- B.K. Bansal:** That figure I do not have right now.
- Basudev:** Sir, broadly I have seen that in the last two quarters from 30 crore manpower cost has moved up to 41, so is it sheerly due to the volume increase or due to manpower ramp up at Bhuj?
- B.K. Bansal:** No, it is mainly because of the volume increase.
- Basudev:** Sure. Okay, sir, that's all from my side.
- Moderator:** Thank you, sir. Sir, our next question is from Saurabh Das from TATA Mutual Fund. Please go ahead.
- Saurabh Das:** Good evening, sir and thanks for the opportunity.
- B.K. Bansal:** Yes, good evening, Saurabh, how are you?
- Saurabh Das:** Good, sir, how are you doing?
- B.K. Bansal:** Good, good, good.
- Saurabh Das:** Sir, just a few business related questions, first is that, what are the key markets globally where we are either very small or not present at all?
- B.K. Bansal:** Russia, CIF countries, South Africa, Canada where our presence is either nil or is very marginal.
- Saurabh Das:** And we are adequately represented in Indonesia and Australia?
- B.K. Bansal:** Yeah.
- Saurabh Das:** Okay and are these markets primarily on account of product gaps where we are not present or it is because of lack of capacity or lack of adequate marketing?
- B.K. Bansal:** Yeah, the only reason was lack of capacity which did not allow us to look at those markets, but now we have started exploring those markets and have started getting good response from those markets.
- Saurabh Das:** And if I look at the large dia mining tyres industry, what would be our market share there, almost nil or we have some...
- B.K. Bansal:** Almost nil, because on overall basis whatever little we are producing, basis that it is just 2%.
- Saurabh Das:** And do we think that we can reach to a respectable level in two years or it will take more time?

**B.K. Bansal:** No, it will take some more time to reach to a respectable level.

**Saurabh Das:** And does that mean that we need to probably either do a tie up or an acquisition with somebody who has that product or...?

**B.K. Bansal:** Not really, the only thing is we need to have production with us, which is not there as of today. Once we have production we know the target market and we have already started dialogue with our potential customers and so all of those things are already in place, so only thing we need to have is production?

**Saurabh Das:** Sir, can you quantify the size of this industry, the large dia?

**B.K. Bansal:** No, overall OTR market is around 10 billion dollars.

**Saurabh Das:** That's right, but the segment we are not present in so strongly which is the large dia mostly.

**B.K. Bansal:** Yeah, it is basically mining tyre and which would be around 6 to 7 billion dollars.

**Saurabh Das:** So, you are saying that we are primarily not present in almost 55%, 60% of the industry?

**B.K. Bansal:** Yes, right.

**Saurabh Das:** And sir, also another conceptual question that, you know, 5, 6 years back when I started looking at the company closely we used to maintain almost a 30% odd price gap vis-à-vis the top gear and if I look at some recent surveys done by people, it is still at around 30 odd percent, would you agree to that number or...

**B.K. Bansal:** Yeah, I would agree to that and I have been explaining to you people that this is attributable to two things, 50% of that is attributable to the sales model, okay. Since we do not have any stock point outside India and everything we sell through distributor and if I follow that sales model I can increase my sale price by 15% easily, but at the same time my cost will also increase by 15%. So, net-net I won't gain anything, so the portion which is attributable to the brand perception is only 15% and that gap will be there because all said and done these premier brands are very old brands in the market and whereas we are a new company.

**Saurabh Das:** Sir, my simple observation was that over a period of time we have gained market share, we have gained in terms of perception also and now the whole world understands that, that we also do contract manufacturing for all these super brands, so is there a conscious effort also to bridge, somewhere capture that 15% or it is too early days and right now market capture is what you would focus for the next two years?

**B.K. Bansal:** Yeah, actually...no that is not the priority to bridge the gap, the priority is to cover more and more market area and that is what we are doing and that is really not that important when we think from overall perspective.

**Saurabh Das:** Okay and just lastly on that large dia mining tyres, so if it is 55%, 60% of the industry we have not attended to for last so many years, what actually is the bottleneck there, is it technology, is it the perception that an Indian company would make such large tyres and globally get accepted or is there a...

**B.K. Bansal:** See, initially when we started we started with agriculture tyre and whatever resources we had all of that went into agriculture space only, so we did not have an opportunity to look beyond agriculture tyres. Now we have grown to a particular level where we can think big, we can plan the things in a better way and that is why we have added such kind of huge capacity at Bhuj and invested such a big amount over there and now we are getting into that direction.

**Saurabh Das:** So the current capacity or the lines which we have in Bhuj, is it capable for large dia mining or we need separate capacity?

**B.K. Bansal:** No, that is, we have added those kinds of capacity in Bhuj.

**Saurabh Das:** Okay and just finally, was there any top management exit in our North American operations?

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

**Saurabh Das:** Okay, thanks.

**Moderator:** Thank you, sir. Ladies and gentlemen if you have any questions, please press \* and 1 on your telephone keypad. Sir, our next question is from Shailesh Kumar from Indsec Securities. Please go ahead.

**Shailesh Kumar:** Good evening, Bansalji.

**B.K. Bansal:** Yeah, good evening.

**Shailesh Kumar:** Sir, I just missed on the new interest rate which you are going to get after negotiation for this 100 million US dollar ECB and 175 million USD, if you could just repeat it?

**B.K. Bansal:** Yeah, it will be around 2%, might be few points here and there.

**Shailesh Kumar:** Okay, for 100 million US dollars?

**B.K. Bansal:** Yeah, 100 million it is already locked at LIBOR plus 190, so it will be like 210. For 175 it will be either 2% or little less than 2%.

**Shailesh Kumar:** Okay, fine and sir, what was our average hedge cost for synthetic rubber during FY14?

**B.K. Bansal:** No, we have not hedged synthetic rubber or any of the raw material, we just buy it so our buying rate keeps changing.

**Shailesh Kumar:** Okay and same is for the chemicals?

**B.K. Bansal:** Yes, yes, we don't hedge any of our raw materials anywhere.

**Shailesh Kumar:** Okay, fine. Thank you, sir.

**Moderator:** Thank you. Sir, the next question is from Ravi Shenoy from Motilal Oswal. Please go ahead.

**Ravi Shenoy:** Thank you for the opportunity again, sir.

**B.K. Bansal:** Yeah, Ravi.

**Ravi Shenoy:** Sir, our board has declared a dividend of only Rs.2 vis-à-vis a payout of about 4%, I just wanted to get a sense that, once this CAPEX is over would that pay out go up?

**B.K. Bansal:** Yes, it should go up because currently why board has not increased this number because the repayments are lined up, okay, so that is the reason and once debt has reduced and company continues to release free cap flow then definitely it will be a case for higher payout.

**Ravi Shenoy:** Sure, then that would be lovely, sir. In terms of repayment you had quoted the number of about 53.88 million for FY16?

**B.K. Bansal:** 68 million dollars for 15-16.

**Ravi Shenoy:** Okay and could I get a guidance for FY16 or some understanding of the interest and depreciation for FY16?

**B.K. Bansal:** FY16, depreciation should be around 200 crores and interest around 40 crores.

**Ravi Shenoy:** And that is the number that we have given out for FY15, sir.

**B.K. Bansal:** Yeah, because now in case with this reduction in interest rate this number will come down.

**Ravi Shenoy:** Okay, but with the rest of the Bhuj unit being capitalized depreciation should go up from...

**B.K. Bansal:** Yeah, that is why I am saying it will increase from 165 to around 200 crores, so it could be either 200 or 210 or 215.

**Ravi Shenoy:** Okay, thank you.

**Moderator:** Thank you, sir. Now I hand over the floor to Mr. Sorabh Talwar for closing comments. Please go ahead, sir.

**Mr. Sorabh Talwar:** Thanks Moumita. On behalf of HDFC Securities, I would like to thank Bansal Saab for taking time out and patiently answering all the questions. Thank you to all the participants for being there on the call. Wish you all a great day.



**B.K. Bansal:** Yeah, 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.

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**Note:**

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