

Q2 2012 Earnings Call - Balkrishna Industries

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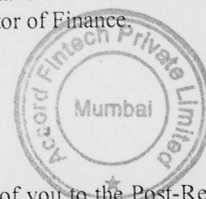
Operator

Ladies and gentlemen, good afternoon and welcome to the Balkrishna Industries Limited Q2 FY12 Earnings Call hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Bhushan V. Gajaria from IDFC Securities. Thank you and over to you sir.

Bhushan Gajaria

Diwali. It's always a pleasure to host a call for Balkrishna Industry. Representing the management, we have Mr. Arvind Poddar, Vice-Chairman and Managing Director; Mr. Anurag Poddar, Executive Director and Mr. B. K. Bansal, Director of Finance.

Without any further ado, I'll hand over the floor to the management. Over to you sir.



Arvind Poddar, Vice Chairman and Managing Director

Yeah, good afternoon, thank you Bhushan and Happy Diwali. Dear friends, good afternoon, I welcome all of you to the Post-Result Conference Call on our half year result for FY12. Along with me, I have Mr. Anurag Poddar, Executive Director; Mr. B. K. Bansal, Director of Finance, Mr. Sameer Shah of LGA, our Investor Relations Advisor. Now I would like to take you through the various developments in the industry.

There has been a growth -- growing demand in tyre by OEM and in the replacement market owing to the increase in industrial and agricultural activities. The demand has been strong across the geographies and in all segments. Mining sector segment in particular is showing substantial increase in demand. Further, we are witnessing strong demand from Agricultural segment as well.

We are increasing our market share in existing geographies and penetrating newer markets aggressively. We are also focusing on CIS, Russia and India which we -- going forward become large market due to huge infrastructure spends. For BKT the volume for the current year, current half year is 61,148 metric tonne compared to 53,134 metric tonne in the corresponding period of the previous year, registering a growth of 15%. The growth has been quite even across all geographies including Europe and America's.

On the raw material front, after witnessing the peak of \$6,500 per metric tonne the natural rubber price has continued softening and now it is hovering around 2,400 to 2,300 per metric tonne -- sorry 4,200 to 4,300 per metric tonne. Currently, we are maintaining around two months of natural rubber inventory.

On CapEx, we have completed the upgradation and de-bottlenecking exercise in the current quarter and the achievable production capacity has reached to 12,000 metric tonnes per month.

In fact, we have achieved the highest production of 11,166 metric tonnes in the month of September '11. With the continuous ramp up in the existing capacity utilization level, we are confident to achieve our full year sales guidance of 130,000 metric tonne to 135,000 metric tonne. On our Greenfield expansion in Bhuj has been progressing as per schedule. The civil and the infrastructure work is progressing as per schedule, order has been placed for major equipments and certain equipments are under installation.

The commissioning of the tyre manufacturing plant is expected by second quarter of FY13. This facility will manufacture the entire spectrum of our product range and with an achievable capacity of 90,000 metric tonne. The estimated project cost is around \$275 million. Till the period ended 30 September, 2011 we have incurred a total expenditure of Rs. 300 crores. The greenfield expansion has been financed through the combination of ECB loan and internal accrual. We have fully drawn our ECB loan of \$175 million. The interest cost on the loan drawn is being capitalized in the books of account since the plant is not yet commissioned.

Therefore, any foreign exchange fluctuation on the same has also been characterized and no impact is seen in the profit or loss account. Post commissioning of the tyre manufacturing facility at Bhuj, the total achievable production capacity of the company will be approximately 234 metric tonne per annum. The Company as on date has an order book of around 70,000 metric tonne worth Rs. 1,450 crore which is equivalent to 6.5 month of sales. With the continuous ramp up in the existing capacity utilization level, we are confident to achieve our full year sales guidance of 130,000 to 135,000 metric tonne.

Now we request if there is any question, it can be asked.

Operator

Thank you so much sir.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Questions And Answers

Operator

We will now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Donald Francis from ValuePickr Investments. Please go ahead.

Donald Francis

Good afternoon sir and congratulations again on a sustainable performance. My one question was regarding the European region.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Donald Francis

And so this is more about what percentage of your revenues from Europe are booked in the currency -- euro as a currency to get a -- if you could through some color on to the risks involved on that front, because of the current environment?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, basically our sales in the euro zone is around 46 to 50% and that is we are selling in euro currency and as a company policy we covered the euro well in advance and we do not give any credit to any of our customer.

Donald Francis

No credit, sir.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Donald Francis

Okay. So out of this non are -- everything is booked in euros, nothing is booked in dollars from the Euro region?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, that is no -- I mean, I would say it is about 95 to 98% is booked in euro currency.

Donald Francis Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Anurag Poddar, Executive Director

Yeah, Donald, Anurag here. As far as our policy that we have is pretty simple and straight forward and we've been following the same for the last several years. So we will continue to do the same, looking forward one year forward contracts, on the euro as well.



Donald Francis

Alright. Are there any extreme situations being factored in terms of the disintegration of the currency or any such thing or that's too far away right now?

Anurag Poddar, Executive Director

No I think that's too far away right now.

Donald Francis

Okay. And some sense from your customers in terms of the demand?

Anurag Poddar, Executive Director

No, demand still continues to be very strong like Mr. Poddar mentioned we have an order book of about 70,000 metric tonnes and we are receiving orders on a regular basis even today. So as far as the order book goes and as far as the customer confidence goes it is still very good.

Donald Francis

Okay. That's great to hear. I'll come back if I have any more questions.

Anurag Poddar, Executive Director

Thank you.

Operator

Thank you so much Mr. Francis. Our next question is from the line of Rinki Gujera from Enam Direct. Thank you and go ahead. Sir congratulations on a good set of numbers.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.



Rinki Gujera

Sir out of the 70,000 metric tonnes how much is from Europe? Can I assume that around 49% of your sales is from Europe.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Rinki Gujera

So the same would be from Europe, is it?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Rinki Gujera

Okay. And sir regarding the inventory, you're carrying two months inventory right now.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Rinki Gujera

So sir, what would be price of the inventory that you're carrying?

Arvind Poddar, Vice Chairman and Managing Director

I mean it is -- daily it will keep on changing, because we are using on fe-fo basis. And the average should be somewhere around 4,600.

Rinki Gujera

Okay. And sir for the current quarter, what was the rubber price that we have factored in on our raw material cost? 4,700 to 4,800.

Rinki Gujera

Okay. So that means our gross margins could improve from here on quarter-on-quarter, is it sir?

Anurag Poddar, Executive Director

Yes.

Arvind Poddar, Vice Chairman and Managing Director

Yeah, there should be some improvement. But all other raw materials are also -- that has not come down because the oil is the still at a same level.

Rinki Gujera

Okay. So could we see an impact from NTCF and other crude related raw material is it such?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Rinki Gujera

Okay. And sir one more question, I was just going through our geography penetration, we're not doing as well in Asia as we're doing in other geographies, any specific reason to that?

Arvind Poddar, Vice Chairman and Managing Director

No. In fact there is a growth in all geographies.

Rinki Gujera

Yeah, true sir, I mean everybody, every geography is growing in double-digits, Asia has just grown, if I compare this half to the prior half, sorry?



Anurag Poddar, Executive Director

Currently Asia business actually -- a big chunk of the Asia business is the business that we were trying to promote in India as well. And because of our capacity issues, we are not really following up on that growth significantly, so that's the reason we've not seen that kind of growth on the Asia segment.

Okay. So it's just capacity constrains that we are not able to....

Anurag Poddar, Executive Director

Yeah, yes. So actually we've had certain on the India business side because of our capacity we have not really expanded in that region.

Rinki Gujera

Okay, okay. And sir, what would be the rate of interest on our working capital loans?

Arvind Poddar, Vice Chairman and Managing Director

Around 3%.

Rinki Gujera

Okay, fine. Thank you so much sir.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.



Operator

Our next question is from the line of Riken Gopani from Infina Finance. Thank you and go ahead.

Riken Gopani

Hello?

Arvind Poddar, Vice Chairman and Managing Director

Hello.

Yeah, good afternoon sir.

Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.

Riken Gopani

Sir, congratulations on a good set of numbers. Firstly, I would just like to understand, have we taken any pricing action during this quarter?

Arvind Poddar, Vice Chairman and Managing Director

No. We haven't taken any, I mean whatever we have already announced if any market where it was not implemented has been implemented. That's all.

Riken Gopani

Okay. So, is -- was there any pricing gain this quarter, any realization improvement on account of pricing?

Anurag Poddar, Executive Director

Yeah. There is going to be some gain because of the lag effect. So the price increases that we had taken in April, May, June the impact of that doesn't come immediately, but comes over a period of time. So there is some gain because of that in this quarter as well.

Riken Gopani

Okay, okay. And I understand your average cost in Q1, was somewhere around Rs. 4,500 -- \$4,500 right for rubber, if I am not wrong?

Arvind Poddar, Vice Chairman and Managing Director

Yeah. Around 4,500 to 4,600, correct.

Riken Gopani

And in Q2, is almost at this same level?

Arvind Poddar, Vice Chairman and Managing Director

It has gone up little bit to 4,700 to 4,800.
It is gone up?



Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

Okay. Because I was under the impression rubber prices would have corrected. So....

Arvind Poddar, Vice Chairman and Managing Director

No, because this is when we are booking, by the time we receive the rubber, it take time because majority of our rubber is coming from overseas.

Riken Gopani

Okay, okay. So you would basically -- what I wanted to understand is, is Q3 going to see a lower rubber cost as compared to Q2?

Arvind Poddar, Vice Chairman and Managing Director

Marginally, yes.

Riken Gopani

And a bigger impact would come in Q4 accordingly?

Anurag Poddar, Executive Director

Q4, yes.

Riken Gopani

Okay, okay. And sir lastly if you could tell me about the overall hedging that you do on the currency for the -- you said it is for the FY13 you are totally hedged now?

Arvind Poddar, Vice Chairman and Managing Director

Yeah. Basically, what we do is we calculate our total exposure and then also from that we deduct our exposure in terms of import, and then we book ourselves for our net exposure. So for our net exposure, we are already booked for the next one year, in terms of dollar as well as in terms of euro.

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

So now -- and also for the liability, because you would also have the ECBs coming through into your balance sheet?

Arvind Poddar, Vice Chairman and Managing Director

That we have kept open, in fact ECB repayment will start at the end of fourth year, so we have enough time. So at this moment we are not looking at hedging it.

Riken Gopani

Okay. But the impact of the currency moment would then be put into the P&L or?

Arvind Poddar, Vice Chairman and Managing Director

Yeah once the plant is commissioned so at least till September 2012 once that is the schedule commissioning date, we'll sustain whatever fluctuation is there that will be capitalized.

Riken Gopani

Okay. And is there any of your dealers asking because of the currency moments any of your dealer is asking for any price deductions or anything?

Arvind Poddar, Vice Chairman and Managing Director

No, no.

Riken Gopani

So there have been no?



Arvind Poddar, Vice Chairman and Managing Director

Yeah, because for them is the same currency they are getting.

Riken Gopani Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much Mr. Gopani. Our next question is from the line of Chirag Shah from Emkay Global. Thank you and go ahead.

Chirag Shah

Hello everybody and thanks for the opportunity. Sir just, first a housekeeping question, if I look at sequentially your realization per tonne has improved significantly, so is just to do with price is up by three odd percent in rupee terms. So I presume it in your dollar term and euro term it would be slightly higher because euro sequential is not so favorable?

Anurag Poddar, Executive Director

Yeah, we have taken certain price increases in April, May and because of all the price increases that we do have come with a lag effect and also there is a product mix effect that comes in because we are selling close to, we have 18,00 SKUs so because of the products mix changes also those kind of realization changes happen.

Chirag Shah

Sir is this business seasonal in terms of SKU mix? Or it follows a particular pattern?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, because, in certain market yes, but if one market needs a different SKU, the other market needs the other SKUs.

Chirag Shah

So on an overall basis it may not necessary be that seasonal in nature?

Arvind Poddar, Vice Chairman and Managing Director

No, no, no.

Chirag Shah

Not necessary that seasonal in nature?

Arvind Poddar, Vice Chairman and Managing Director Chirag Shah

And the second in question is sir, you just highlighted that your order book is for roughly six to seven months or 70,000 tonnes. And you also indicated that you have hedged yourself for next 12 months. So is there a disconnect in understanding that you have hedged yourself for more than your expected orders right now or how one should?

Anurag Poddar, Executive Director

No because, basically this is a regular, we know that what we are going to receive the orders.



Chirag Shah

Okay.

Arvind Poddar, Vice Chairman and Managing Director

So from our past experience of last 15 years and the order flow is continue.

Chirag Shah

Fair enough, fair enough. I understood, it's based on your assumptions of achievable tyre exports you -- and you hedge for that debt or you keep some margins for yourself?

Arvind Poddar, Vice Chairman and Managing Director

I mean, as Mr. Bansal said that we -- on dollar terms, we sell the net exposure and on Europe practically about 80 to 90%.

Chirag Shah

80 to 90% is what you have.

Anurag Poddar, Executive Director

Yeah.

Chirag Shah

And last thing on the macro environment, how are you seeing your demand shaping up, especially on the OEM side? I know it is not that bigger business for you.

Arvind Poddar, Vice Chairman and Managing Director Chirag Shah

Okay. And this is across all segments of businesses to whom you supply?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Chirag Shah

Okay. Fair enough. Thanks a lot sir. I'll come back for more questions.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Operator

Thank you so much. Our next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.

Kartik Mehta

Good afternoon, sir.



Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.

Kartik Mehta

Thanks for giving the opportunity. Sir, I missed on the early part of your comment due to some technical problem. If you can just repeat the average hedging cost per dollar and euro for the next 12 months?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, for dollar it is 47 and for euro it is at around 68.

Kartik Mehta

68 okay. And average selling price per tonne for this quarter sir?
Is Rs.208.

Kartik Mehta

Okay. And does it fully reflect all the latest or past price hike we have done?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Kartik Mehta

Or something is yet to be reflected?

Arvind Poddar, Vice Chairman and Managing Director

Something will be -- there will be still some lag which will be yet to be reflected.

Kartik Mehta

Yet to be reflected?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Kartik Mehta

And are we looking at any price hike because last concall you said that we may consider price hike going ahead?

Arvind Poddar, Vice Chairman and Managing Director

Yeah we are -- I mean at the moment what we have taken in some geographies, we are going to have some price increase and rest we are still I mean, looking at on the raw material situation, and at the end of the year probably we will discuss with all our importers and will form what percentage or whether there will be any increase.

Kartik Mehta



Okay. So nothing has been yet concretely finalized?

Arvind Poddar, Vice Chairman and Managing Director

No.
What should be the price hike in which product and which region, nothing is yet finalized?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Kartik Mehta

so any timeframe you guide for that, that you would take price hike, I mean it is determined by obviously the demand, if demand is strong?

Anurag Poddar, Executive Director

No, no. Demand is going to be strong but we also have to look at the raw material situation. And also we have look at our competitor, global competitor, what actions they are taking. Probably by end of December, we will take a final call that what we are going to do.

Kartik Mehta

okay, so globally your competitors have also not done any price hike since we did last time?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, no.

Kartik Mehta

Okay. Sir, just wanted to know the clarification on this ForEx loss of 7 crore in this quarter, it is attributable to what?

Arvind Poddar, Vice Chairman and Managing Director

It is attributable to one ECB which we have in our books of accounts.

Kartik Mehta

Okay.

Arvind Poddar, Vice Chairman and Managing Director

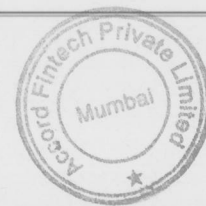
ECB other than the one which we have raised for our Bhuj project.

Kartik Mehta Arvind Poddar, Vice Chairman and Managing Director

That is 7 million.

Kartik Mehta

7 million?



Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Kartik Mehta

Okay. So, this is going to continue at if rupee depreciates further?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Kartik Mehta

Okay. We don't have any hedging for that as such?

Arvind Poddar, Vice Chairman and Managing Director

No, no, no.

Kartik Mehta

Okay. Sir, if you can give the breakup of the 70,000 metric tonne, the OEM versus replacement order book breakup?

Arvind Poddar, Vice Chairman and Managing Director

It's basically...

Anurag Poddar, Executive Director

It's the same trend what you are seeing in our sales.

Kartik Mehta

So, 13, 14% order coming from OEM?

Anurag Poddar, Executive Director

Yeah.

Kartik Mehta

Okay. Sir, last question. Number of dealers if you have taken up from your existing number -- last given number and particularly in Russia?

Arvind Poddar, Vice Chairman and Managing Director

At the moment, we have not increased anything, because we do not have the material.

Kartik Mehta

Material in the sense, ability?

Arvind Poddar, Vice Chairman and Managing Director



Finished product, as we have already a back order of about 6.5 months. So we are not able to service our existing. So at the moment, it will not be right for us to announce the distributors.

Kartik Mehta

Sir, any geographies where we are going slow, like because of our own set of problems like, we are not able to fulfill their demand requirement?

Anurag Poddar, Executive Director

No. See, generally speaking, if you look at our sales, 92% of our sales have always been in the export market. So now in order to cater to that market better, the India sales definitely gets impacted and you can see that in the Asia numbers also.

Kartik Mehta

Okay. Yeah, thanks a lot.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much. Our next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.
Good afternoon sir.

Arvind Poddar, Vice Chairman and Managing Director

Yeah, good afternoon.

Prachi Kodikal

My question was related to the industry. Now the growth that we have seen, I just wanted to understand is it that we are gaining market share or this is the industry that is growing and all the players are growing along with it?

Arvind Poddar, Vice Chairman and Managing Director

I mean, basically yes market is also growing as well as we are gaining some share of the global players. It is a combination.

Prachi Kodikal

And how much share, I mean if you could put a number to it, what is our market share and how that is...?

Arvind Poddar, Vice Chairman and Managing Director

I mean, with the current study what we have done, our market share has moved from 3% to 3.5% globally.

Prachi Kodikal

This is over quarter-on-quarter you are saying?

Arvind Poddar, Vice Chairman and Managing Director



No, no over one year.

Prachi Kodikal

Over a period of one year?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Prachi Kodikal

Okay. Thank you so much.
Thank you.

Operator

Thank you so much. Our next question is from the line of Neeraj Vinayak from Avendus. Please go ahead.

Neeraj Vinayak

Yeah, good afternoon sir, my question is regarding that, do you think the floods in Thailand will have a adverse impact on our prices going forward?

Arvind Poddar, Vice Chairman and Managing Director

No, because the flood which has come in the other part where there is no production of rubber.

Neeraj Vinayak

Okay, okay. And secondly sir, in our revenues, the revenues get booked at the hedge rate of dollar and euro that we have.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Neeraj Vinayak

Supposing we are hedged at 47 or 68 the conversion takes place at the same rates?

Anurag Poddar, Executive Director

Yes, you are absolutely correct.

Neeraj Vinayak

Okay and if there is a difference, supposedly the rate was 47, supposedly we are hedged at 47 and the rate prevailing rate on that date is 46, so the gain will be reflected in any kind of gain or loss in our interest sir?

Arvind Poddar, Vice Chairman and Managing Director

No,no. It is booked at 47.



Neeraj Vinayak Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much. [Operator Instructions]. We have the next question from the line of Basudeb Banerjee from Quant Broking. Please go ahead.

Basudeb Banerjee

Yeah, congrats sir for good set of numbers.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Basudeb Banerjee

Yeah. One query that, if I see your P&L on a sequential basis, other expenditure is up around 27%, whereas volume is up somewhere around 13%. So any sales distribution or one off kind of expenditure there?

Anurag Poddar, Executive Director

Basically, if you see the volume is up by 42%.

Basudeb Banerjee

No, sir on sequential basis.

Arvind Poddar, Vice Chairman and Managing Director

There is some marketing activities which we have carried out in Europe.

Basudeb Banerjee

Sir can you quantify that?

Arvind Poddar, Vice Chairman and Managing Director

That should be some around 5 crore,
5 crore and this will be recurring in nature.

Arvind Poddar, Vice Chairman and Managing Director

No I mean it is a expenditure, because this is building the brand.

Basudeb Banerjee

Yes, yes.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.



Basudeb Banerjee

Okay. And if I missed out any reason why this interest out go suddenly moved up by almost 10 crore this quarter?

Arvind Poddar, Vice Chairman and Managing Director

10 crore?

Basudeb Banerjee

From 33, 35 crores to around 45 crore.

Arvind Poddar, Vice Chairman and Managing Director

Which one you are referring to?

Basudeb Banerjee

Interest in P&L.

Anurag Poddar, Executive Director

Interest has moved up from 3.30 crores to 4.54 crores.

Basudeb Banerjee

Yeah, that's 1.5 crore, I meant 45 million.

Yeah. So basically, this is because the borrowing level has increased and also the interest rate has also moved up a little bit.

Basudeb Banerjee

Okay. And the de-bottlenecking which was going to take place this year is already done?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, it has already been completed.

Basudeb Banerjee

Okay. Thanks.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much. Our next question is from the line of Kunal Bhatia from Dalal Brocha. Please go ahead.

Kunal Bhatia

Yeah sir, thanks for my question. Sir just wanted the breakup in regards to you mentioned about your target for the full year. Sir what -- could you give a broad breakup of the order book in terms of what industry you are getting the order from?



Arvind Poddar, Vice Chairman and Managing Director

I mean, this is in the same what we have shown that across the world from the same market, from the replacement in OE the same percentage.

Kunal Bhatia

Okay. And similar would be in case of Europe as well sir?

Arvind Poddar, Vice Chairman and Managing Director

Yes, yes.

Kunal Bhatia Operator

Thank you so much. Our next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass

Yeah. Hi sir, congratulations on a great set of numbers.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Nishant Vass

Yeah. Sir, I just wanted to know in a longer-term basis after the Bhuj plant gets commissioned our capacity increases by around 40 odd percent right achievable capacity. So is it a fair estimate that as the management is projecting, that the demand scenario continues to remain strong. And we are not able to supply properly to our dealers or distribution channel. Can we expect a market share jump of say from 3.5% to around say 6%?

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Nishant Vass

So that is a fair assumption?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Nishant Vass

Okay. And what is the management's outlook on rubber prices say in the next quarter?

Anurag Poddar, Executive Director

I think they should come down marginally.

Nishant Vass



Okay.

And which is currently at 42, 4,300. It should be somewhere around 37, 38.

Nishant Vass

Okay. And then, so you don't see any kind of steep declines in prices?

Anurag Poddar, Executive Director

Technically, logically yes, but that is not happening.

Nishant Vass

Okay, sir. That's all. Thank you, sir.

Anurag Poddar, Executive Director

Thank you.

Operator

Thank you so much. The next question is from the line of Munjal Shah from Equirus Securities. Please go ahead.

Analyst

Hi. Good afternoon sir.

Arvind Poddar, Vice Chairman and Managing Director

Good afternoon.



Analyst

Sir, a couple of questions. Sir, one thing I want some clarity on the contingent liability of 650 crores I found in FY11 annual report. So can you just throw a bit more light on that?

Arvind Poddar, Vice Chairman and Managing Director

Yeah, that was basically under the current changes what Government of India has done, that when you are importing under advance license whatever imports you are doing and you are not paying the duty so you have to provide the corporate guarantee to them.

Analyst Arvind Poddar, Vice Chairman and Managing Director

So that is -- major portion is the that is what has been mentioned.

Analyst

Okay.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Analyst

And sir I joined a bit later, what are forward receivables you had hedged and at what levels?

Anurag Poddar, Executive Director

We are hedged for next 12 month of our sales at an average rate of 47 in terms of dollar and at 68 in terms of euro.

Analyst

Okay. So you the dollar-euro rate next quarter will be booking revenues at this rate?

Anurag Poddar, Executive Director

Yes, yes okay. Thank you sir so much.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani

Hello.

Arvind Poddar, Vice Chairman and Managing Director

Yes.

Riken Gopani

Sir just one follow up. I was looking at the territory -- geography-wise breakup of volumes which you have given, one specific thing is that it looks in Q2, the volumes for the rest of the world have grown by almost like 50%. Any specific reason, I mean because exposure to that particular market seems to have increased a lot on a sequential basis?

Anurag Poddar, Executive Director

Just hold on. Which one you are talking about, rest of the world?

Riken Gopani

Yes, yes.

Anurag Poddar, Executive Director

That is FH....

Riken Gopani

Q2 versus Q1. I mean, I think as per the percentages, you would have physically seen a 50% growth in volumes in that particular market.



Anurag Poddar, Executive Director

Which page you are referring?

Riken Gopani

You have given basically first half volumes on page seven.

Anurag Poddar, Executive Director

Page seven, just hold on. Yeah.

Riken Gopani

And you had also given Q1, so I'm just calculating Q2 and looking at the growth on a sequential basis?

Anurag Poddar, Executive Director

If you look at Q1 slide 10, where it is quarter-on-quarter FY10, sorry, quarter two, that is earlier year it was 26,500 and some figure which has jumped to 23,439, that is quarter two.

No, actually I was referring to geographical, I'll take that offline I think.

Arvind Poddar, Vice Chairman and Managing Director

So basically you are referring to slide number 11, where the rest of the world figure is 7,469 for the first half of last financial year and which has now gone up to 8,610.

Riken Gopani

Correct.

Arvind Poddar, Vice Chairman and Managing Director

It is a growth of around 15 to 20%

Anurag Poddar, Executive Director

There is no 50% growth.

Riken Gopani

Okay. Then it would be basically a sequential jump, that's it, okay. Just as last thing, you would have the Bhuj capacity up and running into the next year, right, FY13?

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Riken Gopani

So would you have also covered revenues from -- the potential revenues from there or you wouldn't have cover that?

Arvind Poddar, Vice Chairman and Managing Director



No, because that is going to start the production in September and it will ramp up gradually.

Riken Gopani

Correct. Okay.

Arvind Poddar, Vice Chairman and Managing Director

We will get some production in October onwards.
Okay.

Arvind Poddar, Vice Chairman and Managing Director

For which we are going to take a final call maybe couple of weeks.

Riken Gopani

Okay.

Arvind Poddar, Vice Chairman and Managing Director

And we'll decide whether we should cover that or not.

Riken Gopani

Okay, okay. But in -- can you share the quantum of hedges that you have as on date?

Arvind Poddar, Vice Chairman and Managing Director

That we do not have, but basically it is net exposure about 90% in both the currencies for the next one year.

Riken Gopani

Okay, okay. Thank you.

Operator

Thank you so much. The next question is from the line of Raunak Sarma from MSSL Research. Please go ahead.

Analyst

Thank you for taking my question. Sir two questions from my side. Hello?

Anurag Poddar, Executive Director

Yeah.

Arvind Poddar, Vice Chairman and Managing Director

Yeah, yeah please.
Sir, government has just announced some export benefits for companies. Can you just quantify what could be the benefit for BKT?

Arvind Poddar, Vice Chairman and Managing Director



What benefit do you want?

Analyst

It's inter subvention for exports?

Arvind Poddar, Vice Chairman and Managing Director

No, that is if you are borrowing in Indian rupee.

Analyst

Okay.

Anurag Poddar, Executive Director

And that too, I think for small scale industries, not for the big companies like us.

Analyst

Okay, okay. And second question was, there is around 40% growth on the America side year-on-year, can you just quantify what are the key -- can you just say what are the key geographies in America which are constantly....

Anurag Poddar, Executive Director

Basically, we've grown significantly on North America, so Canada, USA and Mexico.

Analyst

And that would be basically mining segment or agriculture?

Anurag Poddar, Executive Director

No, all segments.

Analyst

Okay sir. That's all from my side, thank you.
Thank you.

Operator

Thank you so much. Our next question is from the line of Chirag Shah from Emkay Global. Thank you and please go ahead.

Chirag Shah

Sir, just one. What is it thought internally from here on to focus on the OEM part of the business? You have a pretty good strong franchise on the replacement side and which brings a lot amount of volumes for you, but any thought of focusing big time on the OEM side of the business?

Anurag Poddar, Executive Director

No, as you know that our current business mix also we sale about 15% to the OEM.



Chirag Shah

Yeah.

Anurag Poddar, Executive Director

And going forward also I see that internally we feel that that percentage will remain between 15 to 18% on the enhanced volume of business that we will be doing.

Chirag Shah

Okay.

Anurag Poddar, Executive Director

So there won't be a significant jump, like it's not going to become from 15 to 30%, but there will be some marginal increase.

Chirag Shah

Fair enough and this OEEs are again of particular geography or they are spread across or they are largely European players or European destination?

Anurag Poddar, Executive Director

In all geographies we are dealing with all the big multinational OEMs.
Okay.

Anurag Poddar, Executive Director

In our category of products.

Chirag Shah

But the supplies are also across regions?

Anurag Poddar, Executive Director

Yes.

Chirag Shah

Okay, great. And you just highlighted one thing on your market share which has gone up marginally from 3% to 3.5%. Is it your internal assessment or it is based on some report because the segment in which you have present the data is not really available. So I was just wondering if it's some public report if you can help us understand what is this all?

Anurag Poddar, Executive Director

No. There is no report that is available out there from which we are calculating this, it's based on basically internal assessment.

Chirag Shah

Fair enough, your internal assessments. And you just shared about the sharp jump in your debt on books by 4,000 odd crores if I look at from March till now?



Anurag Poddar, Executive Director

Yes, yes.

Chirag Shah

A large part of that is for CapEx only or how one should understand this 1,000 crore increase?

Anurag Poddar, Executive Director

See, basically out of 1,000 crore, 800 crores and some odd crore is on account of ECB.

Chirag Shah Anurag Poddar, Executive Director

Which you have raised for our Bhuj project.

Chirag Shah

Okay.

Anurag Poddar, Executive Director

And balance is on account of some increase in the working capital borrowings.

Chirag Shah

Okay. But your total Bhuj project CapEx would be how much till now?

Anurag Poddar, Executive Director

Till now we have incurred Rs.300 crore.

Chirag Shah

Okay.

Anurag Poddar, Executive Director

As against Rs.1,200 crore which will be the total CapEx.

Chirag Shah

Okay. So you are expecting 900 odd crores to happen now, which...

Anurag Poddar, Executive Director

Yes.

Chirag Shah

Which will be funded largely to ECB?

Anurag Poddar, Executive Director



Right.

Chirag Shah

Yeah.

Arvind Poddar, Vice Chairman and Managing Director

There is 890 crores of addition in the loan from ECB.

Chirag Shah

Yeah.

Arvind Poddar, Vice Chairman and Managing Director

Well as 650 crores of cash is lying in the balance sheet.

Chirag Shah

Yeah, fair enough, I saw that.

Arvind Poddar, Vice Chairman and Managing Director

-- crore CapEx incurred.

Chirag Shah

I saw that. I just wanted to understand the usage, it is going to be used for your CapEx only.

Arvind Poddar, Vice Chairman and Managing Director

Yeah.

Chirag Shah

The cash will go away in CapEx and that will lie on books for sometime?

Anurag Poddar, Executive Director

Yes, correct.

Chirag Shah

Great, great. This was helpful. Thank you very much.

Thank you so much. We have the last final question from the line of Bhushan Gajaria from IDFC Securities Limited. Please go ahead.

Bhushan Gajaria

Thank you, Terrence. Sir, just want your thought on guys like Michelin are now talking about significant investments into Indian market and how things can change for us in international market?

Arvind Poddar, Vice Chairman and Managing Director

That is basically they are putting the plant in India for passenger and truck bus. And some of the OTR Tires, but not the entire range what



we are producing.

Bhushan Gajaria

Okay, but do you see that risk, because if we are competing with them...

Anurag Poddar, Executive Director

I don't think that there is going to be any risk to this.

Bhushan Gajaria

Okay. And just secondly, one, last one thing, if you can through some light on the receivable cycles of ours?

Arvind Poddar, Vice Chairman and Managing Director

Yeah basically what we do as soon as we fill the container we raise the invoice. The material goes to the port and then by the time it reaches to the customers it is about 40 to 45 days. And we received the total cycle around 60-65 days and in certain cases it is of 90 days because by the time they get the containers at their location.

Bhushan Gajaria

But are we seeing any pressure on the receivable cycles

Arvind Poddar, Vice Chairman and Managing Director

No.

Bhushan Gajaria

Nothing.
Because we don't basically give any credit.

Bhushan Gajaria

Okay, okay. Thanks a lot sir.

Arvind Poddar, Vice Chairman and Managing Director

Thank you.

Operator

Thank you so much. As I see that there are no further more questions, I would now like to hand the call to Mr. Bhushan Gajaria for closing comments.

Bhushan Gajaria

Thank you, Terrence. Thanks to the management. Sir if you like to make any final remark?

Arvind Poddar, Vice Chairman and Managing Director

Yeah. I mean I would like to thank all the participants and would like to wish everybody a Happy Diwali.



Bhushan Gajaria

Thank you. Thanks a lot to the management and thanks all the participants. Wish you a Happy Diwali. Thank you.

Operator

Thank you so much. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

