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\* Basantkumar G. Bansal

\* Rajiv A. Poddar

Dolat Capital Market Pvt. Ltd., Research Division - Analyst

\* Puneet J. Gulati

\* Raghunandhan N. L.

Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst

Nomura Securities Co. Ltd., Research Division - Associate

Ladies and gentlemen, good day, and welcome to the Balkrishna Industries Limited Q2 FY '19 Earnings Conference Call hosted by ICICI Securities.

This conference call will contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not a guarantee of future performance and involve risk and uncertainties that are difficult to predict. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you, and over to you, sir.

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

Thanks, Suzanne, and good day, everyone, and thanks for joining us today for the earnings call. From the management side, we are represented by Mr. Rajiv Poddar, Joint Managing Director; and Mr. B.K. Bansal, Head of Finance. Now I would like to hand over the call to the management for their initial remarks. Over to you, sir.

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

Yes. Thank you, Nishant. Good afternoon, everyone. I welcome you all to the post-result earning call of our company. I am joined by Mr. Rajiv Poddar, our Joint Managing Director; and Mr. Shogun from SGA.

I will start with performance updates. The overall business environment across the globe is passing through challenging times due to trade war, which led to increased volatility in the currency across the globe, which has impacted the demand sentiment across segments and across regions, and our industry is also not immune to this global volatility. Additionally, the drought in Europe and the deep monsoon in few other geography has impacted the agriculture segment, and as a result, we are facing slowdown in the volumes.

During Q2, we lost the volume of 52,339 metric ton, showing a growth of 6.1% on year-on-year basis. While we witnessed volume growth during the second quarter on year-on-year basis, the growth started tapering from September 2018, which is continuing in quarter 3 as well. In view of this, we are turning cautious on our volume guidance for FY '19. With the various segments globally, and additionally, the drought situation, we are currently seeing volume visibility of 210,000 to 220,000 metric tons for the current financial year. However, we are very optimistic on the long-term growth plan of the company, and therefore, we will continue with our planned investment over the next 2 to 3 years.

I would now like to give a brief on various CapEx, which we announced so far. To start with, I will first talk on U.S.A. CapEx. As you know, that U.S.A. is a big geography and potentially a big market for us. We are continuously making progress to increase our presence in U.S. However, our level of penetration in U.S. is still moderate. We believe our local plant will accelerate our growth journey in this region by reducing the lead time in delivery of goods to OEM (inaudible) immediate requirements. It will also increase our competitiveness in exports to neighboring country.

We believe this investment is important to strengthen the brand profile of BKT with its large customer base. The broader tariff has therefore approved setting up of a greenfield tariff facility with a capacity of 20,000 metric tons per annum at a capital outlay of up to USD 100 million to its wholly owned subsidiary in U.S.A. This CapEx will be funded by a mix of internal accrual and local debt. We are in the process of evaluating suitable location in U.S.A. and should be able to finalize it in the near future. We expect the plant to commercialize operation in the year 2021.

Now I will talk on our Waluj CapEx. The plant at Waluj is very old and is long due for complete revamping. The size of the current plotting is small, and as a result, many activities are conducted outside the factory premises, making it operationally sub-optimal.

The company has freed land of around 22 acres within the near vicinity and has decided to relocate operations to this side on greenfield basis. While doing this, the company has also decided to set up a cogeneration plant and in-house warehouses. The new facility will thus bring operational efficiency compared to the existing plant, leading to recurring filling-in operational cost. The new facility will have fill capacity as the current plant, which is 30,000 metric tons per annum, and will be operational by the year 2021.

Waluj's location is critical for us as it has access to established talent pool and is able to service various OEMs in the nearby areas as well as distributors in South India. The existing plant will continue to operate till the new plant become operational.

Now I will talk on Bhuj CapEx. The Bhuj CapEx mainly consist of 3 activities: one, construction of mixing plant, which will mainly cater to our proposed plant in the U.S.A.; the additional construction of warehouse as our existing warehouse has already peaked out; and lastly, to create an additional capacity of 5,000 metric tons per annum for large-sized all-steel OTR radial tires. This CapEx will allow us to complete our product offering and garner higher share of business with our customers. Due to large size of all-steel radial OTR tires, the cost of plant and machinery, including the lane, is significantly higher than the lower diameter sizes. The total CapEx on the Bhuj facility is estimated at INR 500 crore.

On Carbon Black, we have announced to enhance our capacity from 60,000 to 140,000 retail total capital outlay of INR 425 crore. This is (inaudible). The entire CapEx plan will be funded through internal accruals and debt.

Now I will talk on the performance highlights for the quarter.

Our sales volume for the quarter was 52,339 metric ton, showing a growth of 6.1% year-on-year. And for H1, the growth was 14% on y-o-y basis to 109,093 metric tons.

Our standalone revenue for that quarter stood at INR 1,370 crore, showing a growth of 16% year-on-year. This includes realized gain on foreign exchange pertaining to sales of INR 45 crore. For H1 FY '19, the revenue stood at INR 2,784 crore, showing a growth of 26% year-on-year. This includes realized gain on foreign exchange pertaining to sales of INR 96 crore.

On the EBITDA front, for the purpose of presentation, we have shown the interest income from investment and unrealized gain or with loss below the EBITDA line, while realized foreign exchange items has been shown above EBITDA. Accordingly, the standalone EBITDA for the quarter was at INR 380 crore, with a margin of 27.7%. And for H1, the EBITDA stood at INR 790 crore, recording a growth of 27% year-on-year, with a margin of 28.4%.

The other expenditure is relatively on the higher side compared to previous quarter, as it includes expenditure on marketing activity in the nature of brand development by way of sponsorship of various sports events across our 3 markets.

Other income for the quarter stood at INR 91 crore, which includes net gain on foreign exchange to the tune of INR 70 crore and other income from investment of INR 21 crore. For H1, the other income stood at INR 173 crore, which includes net gain on foreign exchange to the tune of INR 142 crore and other income from investment of INR 31 crore.

Now coming to net ForEx item. For the quarter, net ForEx gain stood at INR 70 crore, which includes a realized gain of INR 47 crore and unrealized gain of INR 22 crore. For H1, the net foreign -- net ForEx gain stood at INR 142 crore. This includes realized gain of INR 100 crore and unrealized gain of INR 42 crore.

Profit after tax stood for the quarter was recorded at INR 222 crore, showing a growth of 10% on year-on-year basis, while for H1, the PAT grew 27% on year-on-year basis to INR 453 crore.

Lastly, on debt. We have repaid our long-term debt of USD 33 million in August 2018, post which, we do not have any long-term debt. Our cash and cash equivalent were INR 1,157 crore, implying net cash on long-term basis. The Board of Directors has recommended an interim dividend of INR 2 per equity share, in addition to dividend of INR 2 per equity share paid in Q1

FY '19. The payout, including dividend distribution tax will be INR 46.61 crore, which [walks] out to around 20% of the PAT for the quarter as well as for the first half.

This is all from my side for now. With this, I leave the floor open for question and answer. Thank you.

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Questions and Answers

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Operator [1]

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(Operator Instructions) The first question is from the line of Siddhartha Bera from Nomura Securities.

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Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [2]

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Sir, my first question is on the growth outlook. So if you can possibly highlight, which are the segments where we have seen the maximum cut in our expectations? And what is the run rate which we are seeing? I mean, will it be possible for us to grow at low single-digit tonnage growth run rate or it can be -- it can have a lower bias given that slowdown has already started?

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

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Basically, we are largely been impacted by -- in the agricultural segment, our major market is into Europe, and there, the monsoon has been below average, so which has impacted the agricultural demand. And then because of this trade war, which also translated into currency war, it has impacted the demand in other segments, but that is not as serious as it was in the agriculture segment in the Europe.

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Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [4]

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Okay. Sir, any specific country in Europe region we are talking about here? Or is it...

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

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Generally, all over Europe.

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Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [6]

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Okay, okay. Got it. And secondly, sir, on the CapEx side. So in the first half, we see that the CapEx number has been slightly lower. So are we still able to hit the INR 700 crore CapEx target for this year and -- or is there any change to that?

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

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I mean, that was the estimated number. The major CapEx, as I said earlier, will happen in FY '20 and '21.

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Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [8]

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But sir, for this year, for FY '19, what is the target?

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

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Yes. We have said around INR 700 crore, so I think it will be around this number only.

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Operator [10]

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(Operator Instructions) The next question is from the line of Puneet Gulati from HSBC.

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Puneet J. Gulati, HSBC, Research Division - Analyst [11]

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Just trying to understand a bit more on the -- your comment on trade war side. Is the impact more because of currency? Or are you seeing distributors feeling reluctant to pick up your products because it's coming from outside?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [12]

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I think it's more attributable towards -- to currency.

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Puneet J. Gulati, HSBC, Research Division - Analyst [13]

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Okay. So it's not a mindset issue at this point of time or a fear of tariff?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [14]

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No, no. Yes.

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Puneet J. Gulati, HSBC, Research Division - Analyst [15]

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Okay, okay. And Europe, so if currency were to stabilize, would you expect that you might even exceed your guidance volume or would the drought still have a significant impact for the year?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [16]

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Yes, if things subside and the currency become normalized, I think volume can improve also.

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Puneet J. Gulati, HSBC, Research Division - Analyst [17]

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Yes. But is it good enough to offset the negative impact of drought in Europe?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [18]

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Very difficult to say because we do not know how things will step out. We will closely monitor the whole thing, and we will keep updating you, people.

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Puneet J. Gulati, HSBC, Research Division - Analyst [19]

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Okay. Secondly, if you can give more color on the other expense. How should one think about -- so what -- would there be one-off in the INR 312 crore other expense?

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

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No. No one-off. As I said in my opening remark that we have started sponsoring this year's sports events in our key markets, and that has begun from the second quarter. So there will be expenditure on that in the range of INR 16 crore to INR 17 crore, which will come in all the quarter 4, at least next 2 to 4 years. And this will, yes -- this will again -- yes?

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Puneet J. Gulati, HSBC, Research Division - Analyst [21]

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INR 16 crores, third quarter?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [22]

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Yes. So it will enhance our brand value across our key markets.

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Puneet J. Gulati, HSBC, Research Division - Analyst [23]

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Yes. So even if I were to take away INR 1,600 crore -- INR 16 crore per quarter, it is still on the higher side, some 21.5% of other expenses.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [24]

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Yes.

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Puneet J. Gulati, HSBC, Research Division - Analyst [25]

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Is there something else which is also building in -- or should one think about 21% as a normative?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [26]

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I think 21% will be the normal listing. And the fuel cost has increased, the shipment cost has increased because of the increase in the dollar and the crude prices. So yes, I think, for the time being, once should take around INR 300 crore kind of number as the other expenditure figure.

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Puneet J. Gulati, HSBC, Research Division - Analyst [27]

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Okay, okay. So INR 300 crore? And the INR 12 crore per quarter will continue for how long -- sorry, INR 16 crore in impact?

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

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For next 3 to 4 years.

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Puneet J. Gulati, HSBC, Research Division - Analyst [29]

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So very INR 16 crore. So basically 300 -- the current INR 312 crore is as rather good for next 2, 3 years?

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

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Yes, yes, yes.  
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Puneet J. Gulati, HSBC, Research Division - Analyst [31]  
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Okay, okay, okay. And basically, you're saying that crude is also resulting in higher power and fuel-related costs?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [32]  
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Yes. Power and fuel and the shipment cost.  
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Puneet J. Gulati, HSBC, Research Division - Analyst [33]  
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Okay, freight costs.  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [34]  
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Freight cost, yes.  
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Operator [35]  
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The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.  
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Shyam Sundar Sriram, [36]  
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Sir, within U.S. and Europe, how has the growth been in first half?  
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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [37]  
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Europe has grown at about mid-single-digit, so that's for H1. America has grown at about 30%-plus 1H -- sorry, 17% on H1.  
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Shyam Sundar Sriram, [38]  
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Okay, okay, okay. Sir, correct me, America is growing slightly faster. What has led to a slowdown there? Anything to call out there?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [39]

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We see the run rate for growth here -- actually, the speed that we are going now is actually higher than what we've shown in the earlier quarter and half.

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Shyam Sundar Sriram, [40]

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Okay, okay, okay. Sir, my second question is on the Europe agri cycle. Generally, from your experience, sir, how long does this kind of a slowdown last? So if there is a drought now, usually, from your past experience, when does it usually recover?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [41]

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Normally, about 3 to 4 months.

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Shyam Sundar Sriram, [42]

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Okay. And post that, by the next season, it usually recovers, is it?

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

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We are hopeful. I mean they will start the cycle again. And then, next year, depending on the monsoon, we hope we get a good monsoon, so next year, at the same time, we don't have a similar scenario of drought.

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Shyam Sundar Sriram, [44]

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Okay, okay. So it is possible by that by next year, we may get into better growth trajectory, that is possible in Europe?

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

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Yes.

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Shyam Sundar Sriram, [46]

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Okay, okay. Sir, and in U.S. generally broadly, how is the growth between agri and OTR segment, sir? As well as other company, sir, basis, how was the growth trajectory between agri and OTR segment?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [47]  
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I think it is in line with overall growth number of 16%, 17%.  
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Shyam Sundar Sriram, [48]  
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This is at the company level, sir?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [49]  
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Yes, at the company level.  
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Operator [50]  
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The next question is from the line of (inaudible) Brokerage Private Limited.  
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Unidentified Analyst, [51]  
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Sir, I just wanted to understand that, in Q1 -- in Q2, as we see, there is a reduction in margins. Do we expect that trend to continue for H2? I mean how does the management perceive the rising cost of crude? And I mean, how are we perceiving our margins to be during H2 of this year?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [52]  
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Difficult to predict on quarter-to-quarter or H1 basis. So for the full year, we have given the guidance of 28% to 30%, which we are still maintaining.  
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Operator [53]  
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The next question is from the line of Kuntal Shah from Oaklane.  
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Kuntal Shah, [54]

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Sir, just 2 clarification needed. That of the INR 312 crore other expenses, can you give us, apart from E&P, what are the major variance on a comparable quarter? And secondly, the new greenfield plant value is 33,000 tons and costing INR 500 crores, while the plant in U.S. is of 20,000 ton and INR 700 crores, so might be a higher level of automation. And there will be considerations of lower duties, lower logistics and inventory costs and lower taxes versus higher CapEx, higher OpEx. Can you just give us a granular detail of how it is -- it will impact our returns ratio and return on capital employed specifically?

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

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As far as U.S. CapEx are concerned, we have estimated up to \$100 million. It does not mean that it will be \$100 million. We have taken the approval from the board for up to \$100 million. But our sense is that it will be around \$80 million to \$85 million. As far as Waluj CapEx are concerned, though we are creating a sort of a greenfield facility, but some of the plant and equipment from the existing plant will also be transferred to that new location, and they will be used. So that is why there is no apple-to-apple comparison. And secondly, it also depends on the product mix. So not necessary that the product mix at the Waluj and the U.S. plant would be identical.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [56]

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And also, as you rightly said, the automation level would be much higher in U.S., which should result in higher CapEx.

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Kuntal Shah, [57]

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So sir, adjusted for all these positives and negatives coming into place, what kind of return of capital employed you see the U.S. plant then getting on a standalone basis?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [58]

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See, on the U.S. plant, the return on capital will be definitely lower than the Indian operation, but it is more of a strategic cost because it will help us in our overall business.

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Kuntal Shah, [59]

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And, sir, can you give us granular detail of the other expenses apart from E&P, which is...

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

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I do not have that much detail, but I can tell you, it includes the various kind of expenditures, because, as you can see, other than the raw material and staff cost, all other expenditure are clogged into other expenditure. So it has a mixture of fixed, as well as variable overheads. And that granular details, you cannot take from me separately.

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Operator [61]  
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We'll move on with the next question, that is from the line of Ronak Sarada from Systematix Shares & Stocks.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [62]  
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Sir, if I -- just a clarification. You said the agri and OTR growth would be in line with the overall growth. Like here, for H1, we have growth around 14% y-o-y. So is it similar, you think, agri with...

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [63]  
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(inaudible) in U.S., how the growth in agri and OTR has been.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [64]  
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Okay. So sir, on H1 basis, if you can help us understand how has agri and OTR grown?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [65]  
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Overall?

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [66]  
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Yes, overall on H1 basis.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [67]  
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Agri is 12% on a H1-to-H1 basis, and OTR is 20% on a H1-to-H1 basis.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [68]  
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Okay. And sir, does this 12% and 20% -- so let's say, almost like a -- given our product is more skewed towards agri, the growth rates are not that different to see that sharp increase in ASP. So if you can help us understand, how much is the currency part in ASP?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [69]  
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It will be exactly difficult to say exactly how much is the currency part, but definitely...  
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Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [70]  
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But if you can name the USD and euro realization for the quarter?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [71]  
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So the euro relay average -- realization has been around INR 82, and USD has been around the 70.  
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Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [72]  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [73]  
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Yes.  
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Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [74]  
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And, sir, if you can help us understand. As of today, your currency exposure is on USD basis. Are we now net exporter or still because of your capital commitment and raw material input, we have a natural hedge?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [75]  
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Yes. We do have a natural hedge because capital (inaudible) is scattered and all the capital -- not necessary that all the capital commitments are in the form of imports only.  
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Ronak Sarma, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [76]

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Okay. So as of today, our USD sales...

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

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Yes, yes. The foreign exchange arena and mainly taken to euro.

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Ronak Sarma, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [78]

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Okay, okay. But going forward next 3 years, given we'll have, let's say, around \$80 million, \$90 million spend on U.S. plant, if we, let's say, prefund it even through debt, this will become like a net-net importer kind of situation for us over next 2, 3 years?

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

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No, no, no, not at all. First of all, we will raise money in U.S., and that will be at least from the U.S. operations. Of course, there will be some equity contribution by the parent, but that will not make us a net importer. We will always be a net foreign exchange earner.

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Ronak Sarma, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [80]

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Okay, okay. And, sir, for current year, now that you're seeing -- that you also had the slowdown, the OEM sales, overall, is around 25%. For Europe also, it's like 25% will be OEM sales or that is not the right way?

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

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Ronak, I do not have those numbers readily available with me. I can give you separately.

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Ronak Sarma, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [82]

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Okay. But however, OEM sales seen an impact or since we are ramping up, it's not a major impact? It may only look like...

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

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No, it has impacted, but the major impact has come into replacement.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [84]

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Mainly in replacement?

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

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Yes, yes.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [86]

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Okay. Sure, sir. And any color on deal channel inventory or something, if you can highlight at Europe given you think that the slowdown has started just in September? So how's channel inventory or transit inventory, dealer inventory across?

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [87]

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Yes, there -- that's why they started cutting off the demand from our site, because they have seen the build up in the summer months. Usually, that's when they get a lot of their stock out. So they are being cautious. Also, they are waiting because the year-end is coming and they don't want to carry too much stock in. So the would be effects have come at a time when there is normally destock and then restart stocking. So that's why we are seeing a slowdown, and then 3 to 4 months, it should fully come back.

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Ronak Sarada, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [88]

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But they are not sitting on very large inventory? That's what I was trying to understand.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [89]

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They are sitting on inventory, but not very, very large inventory, yes.

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Operator [90]

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The next question is from the line of Suraj Chheda from IIFL.

Joseph George, IIFL Research - Assistant VP [91]

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This is Joseph from IIFL. Just one question. When I look at that on a q-o-q basis as comparing the September quarter to the June quarter, I'm noticing a sharp, more than 5%, jump in the ASP, that's revenue per ton. Could you give us a sense of what exactly is moving this?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [92]

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It is a mixture of 2 things, product mix and mainly currency. The better conversion of foreign currency into INR.

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Joseph George, IIFL Research - Assistant VP [93]

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But you would realize a similar EUR 81, EUR 82 even in the first quarter, if I remember correctly. Isn't that true?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [94]

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Yes. But on dollar front, there has been a change between first quarter and second quarter. So while the average for the second quarter has been 70, the corresponding number in the first quarter was around 67, and almost 50% of our export is into USD.

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Joseph George, IIFL Research - Assistant VP [95]

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Understood. Understood, sir. Sir, the second thing I wanted to understand was, if I go back in time, if I look at your volumes for the last 12 or 13 years that I have data for, I notice that, in 12 or 13 years, you have reported a volume decline only once, which was FY '16. Could you give us a comparison of the current situation versus FY '16 and how the 2 are similar or different?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [96]

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So we are not talking of any volume contraction. Last year, we did a volume of around 200,000 metric ton. So this year, we are talking of 210,000 to 220,000. So there is a growth, the only thing is the growth rate is moderating in lieu of these challenges.

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Joseph George, IIFL Research - Assistant VP [97]

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Sure, sir. Sir, I'm not -- I do understand that, sir, you're still expecting a growth, whereas FY '16 was a decline. My question was more on the softer issue that you're seeing in the end market in terms of where the challenges are. So I'm just trying to

understand what the differences or the similarities are between the current scenario and FY '16, most from end market demand perspective rather than from an actual volume perspective.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [98]

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At that time, there was -- the market was not affected due to the weather conditions. So that was the overall buying, selling. There was a cash tranche in the markets, so that is what caused the demand deducting. This time, the differences that the -- issues are 2, as we have been saying, one is the -- the biggest issue for us is the drought in U.S.A. and Europe and other region of geographies, which is also they have the money, there is no cash tranche, which is resulting into this low demand. This is just the weather scenario which has caused this. So therefore, we are expecting this to be more temporary because when the season restarts, we are hopeful that they will start the cycle again, and they don't have this drought issue next year when the cycle continue.

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Joseph George, IIFL Research - Assistant VP [99]

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Got it. And just to extend that question. So next year onwards, do you feel confident that you can go back to the old rate of 10% to 12% in terms of volume growth, which is what you've been guiding from a medium-term perspective?

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [100]

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It's too early to comment today. We'll probably wait till year-end and then comment on next year then.

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Operator [101]

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The next question is from the line of (inaudible) Capital Advisors.

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Unidentified Analyst, [102]

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I had a question on Carbon Black plant. As you mentioned that you're planning to increase the capacity, so I just wanted to know, what is the capacity utilization currently?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [103]

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We are indeed in the process of commissioning. It will be -- partly, it will be commissioned by this year-end, so we will start getting production in the next financial year.

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Unidentified Analyst, [104]

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Okay, okay. And sir, how will this impact the EBITDA margins going ahead?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [105]  
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It will really help us to improve the EBITDA margin in the range of 100 to 125 basis points.  
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Operator [106]  
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The next question is from the line of Ashutosh Tiwari from Equirus Securities.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [107]  
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Sir, you mentioned the 82 realize rate of euro in the current quarter. How are we looking in the second half and the next year in this asset?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [108]  
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Yes. For the full year, we are seeing the rate of 81 to 82, so it is expected in the same range.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [109]  
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And for next year?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [110]  
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Next year, it should be around 83 to 84.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [111]  
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Okay. But now that the euro-INR rate is on the higher side already, so does that mean that -- I mean on the reported basis will help ForEx loss in the third and fourth quarters?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [112]

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Yes, it could be. It all depends what was the custom rate in the particular month, because we only recognize this mark-to-market loss with reference to the custom rate and our realized rate.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [113]  
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Okay. And secondly, like you said that 16% was the volume growth for U.S., Americans in the first half, I think we had mentioned almost 60% growth in the first quarter. So is the growth in America was also single digit in the current quarter?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [114]  
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Yes.  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [115]  
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It would be around 12% to 14%.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [116]  
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Okay. And lastly, on the mining tires side, the dollars where we are adding another 5,000 capacity, what is the current capacity that we have in Bhuj?  
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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [117]  
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So currently, we are making -- we are not picking these sizes for which we are adding, we are making up to 49 inches of dyer tire. We are going to go up from 49 to up to 57-inch of dyer, so the recent capacity of the new product line completely.  
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Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [118]  
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And the 49-inch, how much capacity we have?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [119]  
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The total OTR capacity is around 40,000 metric tons, which includes all sizes.  
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Operator [120]

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The next question is from the line of Kushal Shah from Dolat Capital.

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Kushal Shah, Dolat Capital Market Pvt. Ltd., Research Division - Analyst [121]

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(inaudible)

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Operator [122]

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(Operator Instructions)

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Kushal Shah, Dolat Capital Market Pvt. Ltd., Research Division - Analyst [123]

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Sir, I wanted to ask regarding the (inaudible).

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [124]

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We can't hear you. We can't hear you at all. There is a lot of background noise.

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Kushal Shah, Dolat Capital Market Pvt. Ltd., Research Division - Analyst [125]

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Sir, I was talking about the U.S. CapEx plan that you announced, like that was in September. And in October, we had development regarding the USMCA, that is U.S., Mexico and Canada agreement. So do we see anything possibility like we might shift from U.S. to Mexico? Because the main reason is that (inaudible) that is around like, if I'm right, it's around 45 days, so we can significantly reduce that from Mexico also. So is there any possibility on that front?

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [126]

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No. At the moment, we are not considering to shift to Mexico. Also, the detailed, just for a recent information, the details of the agreement are not yet out. They're just saying, but there is no detail about what is the signature that is (inaudible). As of now, there is no thought of moving out to Mexico.

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Kushal Shah, Dolat Capital Market Pvt. Ltd., Research Division - Analyst [127]

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Okay, sir. And the other question was like you have increased this other expenditure by INR 94 crores per year, like INR 16 crores, INR 17 crores per quarter. So that's around like 10% increase in your other expenditure as compared to the last year. So how are we trying to manage the EBITDA margin guidance for this year and next year onwards?

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

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It's marketing expenditure, the INR 16 crore per quarter, so it will be INR 64-odd crore, which will be, I think, hardly 1% -- on full year basis, I think, 1.5%. Not even 1.5%. This should be about just under 1.5%.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [129]

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Yes. 1 -- 1.25%. So it's not very big number, and we have been giving the margin range of 28% to 30%, so after considering that, we are still paying that, we will be in the low [20 million] margin profile. Of course, it is very subjective and it depends on so many things, the raw material prices, the currency, et cetera. Assuming that everything remains intact, so after taking those kinds of expenditures into account, we are still hopeful of margin of around 28%.

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Operator [130]

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The next question is from the line of Arvind Sharma from Citigroup.

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Arvind Sharma, Citigroup Inc, Research Division - Associate [131]

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More on the European demand side. So we understand that this current blip is more temporary for 3 or 4 months. Now if we go forward to FY '20, I know it's a little early, but do you expect a big increase to pent-up demand? What's been your experience?

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

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Too early to comment on that. We are hopeful that we'll have -- because this year's stocks will also, as I mentioned, that they're carrying some extra stock to what we normally would carry, so demand would mitigate the supply, I mean, the stock that they have. So we don't -- but too early to say any comment on that.

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Arvind Sharma, Citigroup Inc, Research Division - Associate [133]

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Okay. I guess, very quickly, on the currency side, any specific countries or areas which have faced this issue on the trade war related...

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

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A lot of the countries in LatAm, South America have faced this. Some countries in Middle East, Turkey have also faced these issues. And Africa, they have faced these issues. So it's a bunch of countries which have faced.

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Arvind Sharma, Citigroup Inc, Research Division - Associate [135]  
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And how much would be the countries contribute to our total volumes? Just trying to understand that what is the extent of the trade war-related uncertainty.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [136]  
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Roughly around 10%.

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Arvind Sharma, Citigroup Inc, Research Division - Associate [137]  
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Okay. So it's primarily the agricultural part?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [138]  
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It is not very simple to answer this thing because there is a lot of indirect impact which impact the overall business sentiment, and ultimately, the demand, so very difficult to put any precise number to your question.

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Arvind Sharma, Citigroup Inc, Research Division - Associate [139]  
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All right. And, sir, just one more question, if I may ask. The Carbon Black plant, when both the phases are functioning, would the company be actually Carbon Black positive, i.e. would -- is that an area where you would actually sell it in the open market? Or will it be entirely consumed in the domestic corporations by that time?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [140]  
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That's right. We will be Carbon Black positive. As we have said earlier, that when phase 2 comes up, we will be Carbon Black positive. So, yes, we will be looking to sell some of the additional capacities to the market.  
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Arvind Sharma, Citigroup Inc, Research Division - Associate [141]  
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Okay. And that would be margin accretive?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [142]

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Yes. Yes, of course.

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Operator [143]

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We take the next question from the line of from Nishit Jalan from Kotak Securities.

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Nishit Jalan, Kotak Securities Limited, Research Division - Research Analyst [144]

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Sir, just 2 questions from my side. Firstly, just wanted to understand how is the -- how are things on the crude side. Although it's too early to call, but crude has come off some about 10% the last few months. So how are the costs like synthetic rubber and Carbon Black are behaving? Are you seeing some softness in those segments? And just related to that, if the demand is generally slowing down, so that put pressures on the suppliers of these products as well. So does that mean that it's possible for tire companies to get a better pricing from these suppliers?

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

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Yes, absolutely. That is logical. In fact, we are seeing softness in the raw material prices also.

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Nishit Jalan, Kotak Securities Limited, Research Division - Research Analyst [146]

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So you already started seeing some softness in the raw material prices as well?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [147]

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Yes, yes, yes.

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Nishit Jalan, Kotak Securities Limited, Research Division - Research Analyst [148]

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Okay. And, sir, just to get on the (inaudible) the Carbon Black plant. Why are we trying to be Carbon Black positive and setting up such a big plant? Why not set up a plant just to meet our requirements because this is not our core business and, obviously, Carbon Black prices are high right now and that can again can be very volatile? So why are we taking the call that we want to be Carbon Black positive?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [149]  
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So Carbon Black positive will be just around maybe about 20%. So it's really critical to have matching supply and demand. Also, what we need to see is that tomorrow when we -- for future expansion, it's very difficult to put small additional capacity, so we are taking a call for future, and we have added that as well today. So if you look at 5 year from today, we expect some more additional capacities to come up. Already, within BKT, we have announced additional 25,000 tons already coming up. So if every time we announce a tire plant, if we look to ramp up, Carbon Black will be unrivaled. So we've taken a call based on that.

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Nishit Jalan, Kotak Securities Limited, Research Division - Research Analyst [150]  
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So, basically, what I understand is 140,000 tons of Carbon Black takes care of 4x, so there's 560,000 tons of product capacity. Is that correct? Because 25% by weight is Carbon Black.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [151]  
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No, 27%.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [152]  
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500,000 -- 425,000 tons of finished product will consume our entire Carbon Black production.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [153]  
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Yes. So we are already at 300,000.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [154]  
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Nishit, in between, we will have surplus capacity for which there is (inaudible) demand and so selling would not be any challenge. But the main intent was to meet the captive requirement.

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Operator [155]  
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We leave the next question from the line of (inaudible) Securities.  
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Unidentified Analyst, [156]

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Bansal ji, a couple of questions. We have revised our volume guidance only a previous quarter, and then we have revised it down this quarter. So in a short span of 3 months, I mean, has things changed so dramatically?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [157]

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Yes. Actually, until August, things were going so smoothly, and we were very close to the higher bound of our revised guidance. And now, it started from September, and then we saw in the October, as well seeing in November, December, so we thought that it will be appropriate on our part to sound it in our investors rather than hiding it and then let you know at the end of third quarter.

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Unidentified Analyst, [158]

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Okay. And, sir, our freight costs, roughly, how much it had changed in percentage terms on y-o-y basis?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [159]

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Not very significantly, but yes, it has changed. The ocean freight is around 5% to 6% of our sales.

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Unidentified Analyst, [160]

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Okay, fine. So, I mean, there has been no meaningful change in that?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [161]

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I mean, there has been some increase, but not very meaningful increase.

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Unidentified Analyst, [162]

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Okay, so in that sense, only this sponsorship, is there additional expense which in there in other expense item?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [163]

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No. There are a lot of things, which are included in other expenditure, and most of the expenditure are variable in nature, like power and fuel, freight and forwarding, other charges, et cetera.

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Operator [164]  
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The next question is from the line of Suneeta Kamath from Motilal Oswal Securities.

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Suneeta Kamath, [165]  
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Sir, would it be possible for you to give the revenue mix in U.S. in terms of agri versus OTR?

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [166]  
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We don't have those numbers at the moment.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [167]  
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Right now, it is not available.

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Suneeta Kamath, [168]  
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Okay. But would it be fair to assume that the OTR segment has a higher share in the U.S. or would it be more similar like our overall?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [169]  
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No, I think in -- no, no, in Americas, also, the share of agri is higher.

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [170]  
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It will be all over the world, our agri profile is same. So the shares of agri versus OTR is same.

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Suneeta Kamath, [171]  
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Okay. And secondly, in terms of realizations, how would they differ in agri versus OTR?

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

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In that rate, all -- it varies for each SKUs, but I -- broadly, I will say, it is similar across those segments.

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Suneeta Kamath, [173]

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Okay. All right. And (inaudible), you mentioned that in U.S., so in managed, we've grown by about 17%. So what exactly is driving this growth? Is this -- is it only the mining segment that's driving the growth? Or are the other segments also doing pretty golden?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [174]

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In U.S. our base is very small, and we are continuously making efforts to grow our presence over there. So with the small number, in absolute terms, also reflects a high in percentage terms.

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Suneeta Kamath, [175]

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Okay. So it's basically market share gains?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [176]

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Yes, yes, correct.

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Operator [177]

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We'll leave the next question from the line of Raghunandhan from Emkay Global.

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Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [178]

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Sir, just wanted to understand, how is the growth in other regions, the rest of the world and India region?

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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [179]

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India has been a positive growth, and we've seen a higher number. I don't have the exact data because we clumped the rest of the world together. But overall, India has been outperforming for us so far.  
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Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [180]  
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So would it be fair to assume that India plus rest of the world would have a double-digit growth in the H1, sir?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [181]  
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Yes.  
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Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [182]  
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Sir, just -- so over 30% of our volume comes from Europe agri segment. So what kind of a fall would be like expected in this H2? Would a single digit fall be a fair assumption?  
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Rajiv A. Poddar, Balkrishna Industries Limited - Joint MD & Executive Director [183]  
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We are just working and trying to (inaudible) with our distributor and see what (inaudible) is there. So it will be difficult to put a number now, but maybe next quarter or something, we can give more clarity on that.  
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Operator [184]  
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The next question is from the line of (inaudible) from Excelsior Securities.  
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Unidentified Analyst, [185]  
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Yes, sir. My question pertains to the other expenses again, and I know you explained it, sir. But in Q2, we had the EBITDA margin going down, I'm referring to Slide #10, from 32% to 27.7%. And while most companies are struggling with passing on raw material increases, in fact, the raw material -- if we aggregate raw material increases in stock, that has grown by 11% versus 16%, which means that your raw material as a percentage of sales declined, which is a good thing. But the other expenses like a 58% increase in the other expenses, and that has completely had direct impact on the EBITDA margin. So can you elaborate a little bit more? I understand that's (inaudible) for INR 18 crores or thereabout, but 58% increase in other expenses?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [186]

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If you see the -- I do not have the full detail of other expenditure of the same quarter of previous year. But I think, thereafter, the other expenditure has been in the range of around the INR 290 crore or so. In the previous quarter also, the number was INR 298 crore and now it is INR 312 crore. Last year, I will have to see that what was the reason why it was looking so low. Probably, we can discuss separately, and I can give you more color on that.  
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Unidentified Analyst, [187]  
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So is it -- then is it correct to assume that these are in the nature of fixed expenses and as inventory volumes increase going forward, the revenue increases, it may benefit in terms of positive operating leverage?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [188]  
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See, the other expenditure has both kind of expenditure, fixed expenditure as well as variable expenditure. I will say, mostly, it has -- there are variable expenditure, but there are certain expenditure, like on sales promotion or advertisement or some event, et cetera, which happens in a particular quarter, but then when the invoice, et cetera, come in the next quarter so they are booked in that next quarter. So that could be one of the possibility. I do not know the exact reason why it was so low compared today. So like I said, we can discuss it separately and let you know.  
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Unidentified Analyst, [189]  
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And second question, sir, this entire Balkrishna was built on the fact that we provided excellent quality tires from a low-cost manufacturing place like India. But now you are going into the U.S. where you won't really have a price advantage, considering it's a new plant and we are at the same level playing field as any other U.S. competitor. So what is the logic then to go into U.S.? Is it that you fear that you will not get access to U.S. markets unless you have a plant over there because of protectionist policies? What is the underlying reason?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [190]  
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Yes. We are not shifting our entire production base from India to U.S. We are only talking of 20,000 metric tons of capacity. This would hardly be 6% of that. So there is no change in our business model or in our approach or in our strategy, it continues to remain same. This 6% capacity, we believe, that help us to improve our overall presence in the U.S. market. So as such, there is no change in our policy or our business model.  
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Unidentified Analyst, [191]  
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And one last question, sir, with these new expansion plants, basically the U.S. plant and the Carbon Black, don't you think that your return on capital employed will diminish because, essentially, these are low-ROCE businesses?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [192]

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No. Again, because on Carbon Black, as of now, we see good margin, and so it will not be ROE- or ROCE-dilutive. Yes, U.S. operations will definitely be lower in terms of those metrics, but that would hold true if we see -- stand in isolation. If we look at it in absolute terms, and we have to look at it in absolute terms because it will help us -- it will help our overall business to grow, then I would say that it will not be margin-dilutive or ROCE-, ROI-dilutive.  
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Operator [193]  
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The next question is from the line of [Sudhar Shah] from Solidarity Investment Managers.  
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Unidentified Analyst, [194]  
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My first question is I want to understand what are the volumes from the North America and the adjoining regions on an annual basis.  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [195]  
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Okay. For America, the volume has been around 9,700, north, as well as Latin and South America.  
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Unidentified Analyst, [196]  
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In terms of percentage?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [197]  
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No, no, no. Absolute number. Percentage-wise, it will be around 18%.  
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Unidentified Analyst, [198]  
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Okay, okay. All right. And will there be any duty on exporting from India towards America and the lead time in the transit?  
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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [199]  
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So there is a fee of 5.36%. Other than that, there is no duty. As far as lead time is concerned, yes, it is around 60 days from India to U.S.A.

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Unidentified Analyst, [200]  
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Okay, okay. All right. And my second question was that we have overall CapEx plan for about INR 2,000 crores in the next 3 or 4 years. I want to understand what will be the revenue-generation capacity of BKT, let's say, post 2021 or '22.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [201]  
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This entire INR 2,000 crore is not going for capacity expansion. It is being incurred to maintain the overall competitiveness of the business and to support the future growth of the company.

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Unidentified Analyst, [202]  
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Right. In terms of the new greenfield expansion that we are doing, what would be the capacity utilization? If you can throw any light on that?

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [203]  
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Greenfield is only happening at U.S.A. and we have not yet finalized the land. We are in the process of searching the land. And the expected date of completion, the commissioning is March 21. Thank you.

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Operator [204]  
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Ladies and gentlemen, due to time constraint, that would be our last question. I now hand the conference over to the management for the closing comments.

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Basantkumar G. Bansal, Balkrishna Industries Limited - Director of Finance [205]  
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I thank you all the participants for sparing their valuable time to join our call. And I wish all of them a very Happy Diwali and prosperous new year. Thank you very much.

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Operator [206]  
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Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you. Bye.