"Balkrishna Industries Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Balkrishna Industries Limited Q4 FY2020 earnings conference call hosted by Axis Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital Limited. Thank you and over to you Sir!

Nishit Jalan: Thank you Vikram. Good afternoon everyone. Welcome to Q4 FY2020 Results Conference Call of Balkrishna Industries. From the management team, we have Mr. Rajiv Poddar, Joint Managing Director; and Mr. B.K. Bansal, Director Finance. I will hand over the call to the management for opening remarks post which we can move to Q&A. Over to you Mr. Bansal!

BK Bansal: Thank you Nishit. Good afternoon everyone. I welcome you all to the Q4 financial Year 2020 earnings call of our company. I am joined by Mr. Rajiv Poddar, Joint Managing Director and Mr. Shogun Jain from SGA. Let me begin with update on the performance of the company.

During the last earning call in February 2020 we had indicated that we should be able to cross 2 lakh metric ton sales volume for FY2020. I am happy to inform you that we have crossed this benchmark and have achieved sales volume of 201760 metric tons for FY2020; this is despite shutdown of manufacturing operations and dispatches across all our plants for 8 days in the month of March 2020 due to lockdown on account of COVID-19.

` The COVID-19 situation led to lockdown of entire country and as a result our manufacturing activity as well as dispatches remain suspended on March 22, 2020 and then from March 25, 2020 to later part of April 2020 when lockdown was lifted gradually by the respective state governments.

We have undertaken safety measures across all our plants and followed increased protocol to ensure safety and wellbeing of our staff and workers as well as outsiders interacting with our staff and workers. After resumption of manufacturing activities and dispatches, we were gradually able to ramp up our activity and are happy to inform you that we have gradually gained normalcy in our manufacturing activity as well as dispatches to a large extent.

Our diversified product portfolio, strong presence across the globe, multiple sourcing bases of raw materials and strong balance sheet with no long-term debt makes our company resilient to face any challenges and to maintain competitive edge in the global market.

Our Carbon Black project is also running smoothly and we are able to ramp our production continuously.

Let me now update you on the capex front. As you know the first phase of Carbon Black project is already up and running. The second phase of the project with a capacity of 80,000 metric tons per annum was commissioned on March 12, 2020 much ahead of its schedule date of completion. Now we have a total capacity of 140,000 metric tons and are self-reliant in terms of our Carbon Black requirements. The third party sale of the Carbon Black was well accepted in the market on the strength of our quality.

The remaining capex programs of the company are broadly on track; however, the completion will depend on the COVID-19 situation, which is changing rapidly.

I now move on to performance highlights. Our sales volume for the quarter was 57,966 metric tons showing a growth of 5% Y-o-Y and around 22% quarter-on-quarter. For FY2020 sales volume stood at 201,760 metric tons showing de-growth of 4% Y-o-Y. Our standalone revenue for the quarter stood at Rs. 1389 Crores showing a growth of 3% on a year-on-year basis. This includes realized gain on foreign exchange pertaining to sales of Rs.32 Crores. For FY2020 standalone revenue stood at Rs.4,898 Crores, which includes realized gain on foreign exchange pertaining to sales of Rs.115 Crores.

On the EBITDA front, for presentation purpose we have shown the interest income from investment and unrealized gain/loss below the EBITDA while realized foreign exchange items have been shown above EBITDA. Accordingly, the standalone EBITDA for the quarter was at Rs.407 Crores with a margin of around 29.3%. The standalone EBITDA for FY2020 was at 1,381 Crores with a margin of 28.2%. Other income for the quarter stood at Rs.66 Crores, which includes net gain on foreign exchange to the tune of Rs.29 Crores and other income from investment of Rs.38 Crores. For FY2020 other income stood at Rs.249 Crores, which includes net gain on foreign exchange to the tune of Rs.131 Crores and other income from investment of Rs.117 Crores.

Coming to the net forex items. For the quarter we incurred a net forex gain of Rs.29 Crores, which includes realized gain of Rs.35 Crores and unrealized loss of 6 Crores. For FY2020 we incurred net foreign exchange gain of Rs.131 Crores, which includes realized gain of Rs.132 Crores and marginal unrealized loss of Rs.45 lakhs.

Profit after tax stood for the quarter was at Rs.257 Crores showing a growth of 39% on a year-on-year basis while for FY2020 it was recorded at Rs. 945 Crores showing a growth of 21% on a year-on-year basis. The profit after tax has been higher on account of reduced taxation rate pursuant to changes in the corporate tax rate during the year as well as remeasuring of cumulative deferred tax liability.

We continue to be a zero long-term debt company. Our cash and cash equivalents were Rs.1,086 Crores implying net cash position on the long-term side.

For FY2020 we incurred a capex spend of Rs.761 Crores and we expect to spend another Rs.600 Crores during current financial year largely towards the ongoing capex program as well as routine maintenance capex.

Since the current environment is very dynamic, it is difficult to estimate the level of operations, which we may achieve in the current year and that is why we are refraining ourselves from giving guidance for the current financial year. However, if everything remains what it is as of today we should be able to maintain the similar level of performance what we have achieved during last financial year. We will keep updating going forward with all the changes, which may have a major impact on our business operations.

With this I conclude my opening remarks and leave the floor open for question and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Congrats on the good set of numbers especially on the volume. Firstly, can you share the geography-wise mix for the year and for the quarter?

BK Bansal: Europe for the quarter was around 58% and India was around 17%, , America was around 14% and balance was rest of the world and for the year the Europe is around 51%, America is around 17%, India is 20% and balance is rest of the world.

Ashutosh Tiwari: India was higher for the full year and so how you are seeing the improvement over the last two months across geographies including India as well as across segments like agri, construction, mining and all?

BK Bansal: It is quite encouraging across geographies and across product segments and more particularly into agriculture segment the response is very good.

Ashutosh Tiwari: In terms of retail are things back to normal like Pre-COVID level?

BK Bansal: Yes it looks like. Based on our last two months experience we can say that it is very stable kind of demand.

Ashutosh Tiwari: Construction segment, how is demand shaping up?

BK Bansal: Yes. It is shaping up pretty well.

Ashutosh Tiwari: Okay. There also things are good?

BK Bansal: Yes.

Ashutosh Tiwari: Lastly, with this phase 2 of Carbon Black will you be selling Carbon Black outside also because I think we have more than what we require now?

BK Bansal: Yes.

Ashutosh Tiwari: So roughly what quantities can you consume at 2 lakh production level?

BK Bansal: So at 2 lakh metric tons we would need around 55000 to 56000 metric tons.

Ashutosh Tiwari: So remaining we can sell outside?

BK Bansal: Yes. Remaining we will sell to outsiders.

Ashutosh Tiwari: Thanks a lot and all the best.

Moderator: Thank you Sir. We have next question from the line of Gaurav Khandelwal from Mirae Asset. Please go ahead.

Gaurav Khandelwal: Congratulations on good set of results and I hope that things are safe at your end and at your team's end. Sir, I have a couple of questions. Firstly if you look at the demand side although India started to shutdown at around March 23, 2020, I think Italy started to shutdown on March 7, 2020 and then progressively other European geographies where we have 58% of the sales like you mentioned started to shutdown even earlier, so on demand side there would have been higher pressure so are you indicating that it is not just 7 days of production shutdown in India it is 25 days or maybe 28 days of shutdown that has impacted your sales and your volumes would have been much higher not for the 28 days of shutdown in Europe?

BK Bansal: Europe did not have a complete shutdown, but it was a partial shutdown, so their agriculture activities and other type of activities were going on, so when we had a shutdown they had inventory and they took care of their sales from that.

Gaurav Khandelwal: This is basically from your warehouses in Europe, you were able to sell ?

BK Bansal: Not only from our warehouses, but even our distributors, generally they keep inventory of 2 to 3 months so during this period of lockdown they were able to take care of their customers' requirement.

Gaurav Khandelwal: Understood and then on your raw materials front I think on a per ton basis if I do a quick calculation it has increased by around 3% to 4% odd, while the crude, which is the main cost element and its derivative, but if I calculate it from a lag also I think there was a decline, so can you give a color on what happened on that front?

BK Bansal: Yes, basically the raw material cost per se has come down. If I see my raw material cost for both the quarters December quarter as well as March quarter it has come down from 101 to 98 per kg, while it is looking at elevated level because of the inventory adjustment so during this particular quarter there has been a decrease of high-value stock, which came for consumption so that is why the full impact was not seen during this quarter.

Gaurav Khandelwal: Last question from my side. On your commentary the number of days of shutdown in FY2021 will be higher than FY2020, but still you expect that you will be able to maintain the volumes in FY2021 and also I think there will be some impact on the construction segment and OE segment, but still your commentary looks very bullish so can you provide further color on that?

BK Bansal: So basically the demand in agriculture sector has been very robust. For the last two years, the agriculture demand in Europe was not good because of the failure of rabi season, but that season has been good this year, so overall the agriculture demand in the Europe region as well as in the U.S. has been very good and in India also for the last two years monsoon was good, this year also it is expected to be good, so the demand of agriculture will be very good and for OTR segment I would say it would be very stable.

Gaurav Khandelwal: So it is basically you expect agriculture segment to pull up the volumes for other segments?

BK Bansal: Yes. This is what we have seen in the fourth quarter also.

Gaurav Khandelwal: Thank you so much I will fall back in the queue.

Moderator: Thank you. We have next question from the line of Bhaskar Bukrediwala from ASK Investment Managers. Please go ahead.

Bhaskar Bukrediwala: Just wanted to understand on the realization front our utilization on a Q-on-Q basis is down from Rs.250 odd to around Rs. 239 to Rs. 240, so why is that and how do we look at the realization going forward?

BK Bansal: So this is on account of two things one is product mix, which is always the case so that is why the price realization is not same across the quarter and secondly some price reduction rather I would say discount, etc., we offered in the Europe market, so that is why it is down. Going forward I think the realization should be anywhere between Rs.240 to Rs.245 per kg, for the full year our realization has been Rs.243, next year also I am seeing around Rs.245.

Bhaskar Bukrediwala: Just one question on your capex side so how much is currently pending on Bhuj plus Waluj put together and of that if you could give us a schedule how much would be done in 2022 and how much will probably spill over if at all to 2023?

BK Bansal: Basically now two projects are left one is Waluj and another one is Bhuj. The residual capex on both the sites would be around Rs. 500 Crores that we spend during the current financial year. We are trying our best to complete it in the current financial year, but with the caveat of a maximum delay of one quarter.

Bhaskar Bukrediwala: So Rs. 500 Crores is what is left for both put together?

BK Bansal: Yes for both put together.

Bhaskar Bukrediwala: On this asset base currently what you have, just a couple of questions what would be your run rate of maintenance capex going forward including this year?

BK Bansal: I think it should be around Rs. 150-Rs. 200 Crores.

Bhaskar Bukrediwala: Rs. 150-Rs. 200 Crores of maintenance Capex. Right Sir I think that is it from my side. Thank you so much.

Moderator: Thank you Sir. We have next question from the line of Sanjay Bembalkar from Canara Robeco AMC. Please go ahead.

Sanjay Bembalkar: Sir on the advertising spends considering most of our advertising spends are happening on the sport leagues in Europe and U.S. I wanted some clarity on that for FY2021-2022 and the second was on the ocean freight and third was effective tax rate for 2021-2022?

BK Bansal: So effective tax rate would be 25.17% and coming to the next question ocean freight. Ocean freight is around 6% to 7% of the export so it would be in the similar range. As far as advertisement, publicity and sales promotion our total sales and marketing budget is around similar levels of last year where we spent around approximately Rs. 300cr. Of which sponsorship led spends would be around in the range of Rs. Rs.90-Rs. 100Crores.

Sanjay Bembalkar: This is for the full year. So considering the last year we had spent Rs. 280 Crores odd on the advertisement and promotion, that will come down to Rs.90 Crores is that understanding correct?

BK Bansal: No. Advertisement, publicity and sales promotion would remain around last year levels of approximately Rs. 300 crores, of which sponsorship led spends would be Rs. 90-100crs. So no major change.

Rajiv Poddar: I think what Mr. Bansal is saying is what you were asking about the sporting activities, so that is the breakup that Mr. Bansal is giving, the promotion activities for those and that will continue in this year also so we will be in the same range as this year. The other spends including all promotions and branding activities, will continue.

Sanjay Bembalkar: Understood. Thank you.

Moderator: Thank you sir. We have next question from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: If you can just provide me your breakup between agri, OTR and other segment sales of volume and OEM business into that?

BK Bansal: For the quarter, Agri is 65% and OTR is around 32% and remaining is on account of ATV and lawn and garden. Now coming to channels, so OEM for the quarter is around 28%, replacement is 68% and offtake is the balance.

Vimal Gohil: Sir this agri, OTR and others that you provided was for the full year?

BK Bansal: No, it was for the quarter, but full year agri is 61%, and OTR is 35% and remaining is ATV and lawn and garden.

Vimal Gohil: Sir I just missed your effective tax rate for FY2021 so can you just highlight that?

BK Bansal: 25.17%.

Vimal Gohil: For FY2021?

BK Bansal: Yes FY2021.

Vimal Gohil: Secondly if I were to look at the commentary of some of your customers that has been sort of slightly downward or probably even they have refrained from giving guidance so just wanted to understand once again what is leading us to be sort of positive about our volume outlook in FY2021?

BK Bansal: Basically as I said in the last two months we have seen a good demand in agriculture segment across geographies and we continue to see that this demand will be maintained. Last two years has been very challenging in Europe because of the drought and heat waves, and fortunately this year this is not the situation, so overall agriculture activities in Europe are very robust and so is the case in U.S. because U.S. last year was impacted because of the trade war between U.S. and China. Now with some generation the demand of agriculture products from U.S. is also good and on India front also it is very good. So basically agriculture is driving the whole demand and on OTR front while new capex, etc., may be delayed, but since we are gaining the market share so we will continue to maintain our share and we will have a stable demand.

Vimal Gohil: Ad and promotion expenses for this year should be around Rs. 85 Crores to Rs.100 odd Crores right?

BK Bansal: No. Now when we talk about advertisement, etc., there are promotional items, we have sponsored various sports activities, so including that the amount will be similar to what it was last year which would be around Rs. 300 crores of which sponsorship led spends would be would approximately Rs. 90-100 crores

Vimal Gohil: Which is?

BK Bansal: This should be around last year numbers.

Rajiv Poddar: So basically, while Mr. Bansal is finding the exact number the spend range will be similar in percentage basis as what we have been doing in the last few years, so that will be continuing.

Vimal Gohil: Last question from my end. How should we think about gross margins you are sitting on life high gross margins right now how should we think about gross margins from a longer-term perspective?

BK Bansal: I think you should take it at around 58% to 60%.

Vimal Gohil: 58% to 60%?

BK Bansal: Yes.

Vimal Gohil: Fair enough and this incremental gross margin would be driven by your Carbon Black?

BK Bansal: Carbon Black and lower raw material cost and some better realization on account of better currency realization.

Vimal Gohil: Fair enough. Thank you so much and all the best.

Moderator: Thank you. We have next question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: What is our exposure to China in terms of raw material and is there any kind of a dependence, which but for them we cannot fulfill?

Rajiv Poddar: I will answer that question. So as of now, I will answer it in two parts first is the dependence of China, without that we cannot do so, there is no such raw material as of now that we do not have alternates to, so in fact over the last few years we have been looking at various options from across the globe, so there is a very little part, which is coming currently from China and that is also just as a backup, so there is nothing that we would need for our raw materials to depend fully on China.

BK Bansal: As of today some very small percentage is coming.

Bharat Shah: How much is it?

BK Bansal: Exact breakup I would not have, but it would be around 10% to 12%.

Bharat Shah: What I understand is current percentage itself is low and we can substitute by any other substitutable vendors or source?

BK Bansal: Yes.

Bharat Shah: It is not as if China playing funny and stop our operations?

Rajiv Poddar: No, not today because we have developed alternate vendors over the last few years and from different parts of the world so there is no dependence on any particular geographical region, so we have derisked the raw material sourcing in that sense.

Bharat Shah: Thank you Sir.

Moderator: Thank you. We have next question from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Congrats on the great set of results. Sir can you give us some more color on how the trend has been on the agricultural side for May and June are we seeing growth and like as you have said that some sales have also happened from the inventory where it is around 2 to 3 months, will be there scope to again refill the inventory and drive sales from it?

Rajiv Poddar: So as BansalJi said earlier basically if you see in the last few months there has been a good demand coming in from the agriculture sector. This has mainly been because everybody, cycle of agricultural drive is coming and also last year there was a weather issue, which is not here this year, so keeping all those factors into mind there has been a good demand, which is coming and we are geared up to supply that and you can see what we demonstrated in the last quarter of this financial year, which is visible, had it not been lockdown we would have hit across what we were expecting to, also there has been a good demand and we expect things to be similar, subject to no other sort of a scenario like COVID expansion, say, wave 2 or if no other factors come in then we should look at hitting numbers what we have hit this year.

Siddhartha Bera: On the commodity side, when you indicated that average cost will be around Rs. 98 per kg in fourth quarter so can you indicate what are the trends as of now this quarter how much more benefit can we look at given the way how commodities have moved?

Rajiv Poddar: Commodity prices if you see the trend it has been declining whether it is natural rubber or whether they are crude derivatives so a similar trend is being maintained there is no fresh development on the raw material side, which can lead to any increase in their prices.

Siddhartha Bera: So any blended number, can you share and how much will be the cost?

Rajiv Poddar: It is difficult to say that, but I can give the directional view that it is on the declining mode.

Siddhartha Bera: Lastly Sir on the capex side we have indicated Rs. 600 Crores capex for FY2021 so with this now most of our Greenfield projects are over, so what is the sustainable number to look at from FY2022 onwards any broad color?

BK Bansal: From FY2022 onwards there will be maintenance capex, which will be around Rs. 150-200 Crores across all the four locations.

Siddhartha Bera: Thanks a lot.

Moderator: Thank you. We have next question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Sorry, I joined late, so I might have missed. I have two questions what is the plan to do with the extra cash that you would have post this capex?

BK Bansal: See, as of now there are no plans so that would remain as an investment and if the level of operation increases then two years down the line we may have requirement of the further capex, so as of now there are no plans.

Puneet Gulati: What about the Carbon Black, which will also be surplus now that you have full 140000 commissioned, how are you planning to sell it as a business?

Rajiv Poddar: Basically our Carbon Black has been well accepted in the marketplace and lot of the leading rubber and tire manufacturers are already, we have gone through the phase of testing with them and we got approvals, so we are already supplying to leading companies in India at the moment, so we are quite confident that the extra capacity, which we have will be easily sold barring Q1 which will be soft due to covid led lockdown.

Puneet Gulati: So can you give some sense of what kind of realization you are getting and what is it costing you to produce the same?

BK Bansal: Those numbers are readily not available, but I can say that it is giving us a good margin, what we had indicated earlier it was better than that.

Puneet Gulati: Great, that is all from my side. Thank you so much.

Moderator: Thank you. We have next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Congratulations on a good set of numbers in a challenging scenario. Sir two questions from my side, if I take your overall raw material basket then how much of it is the natural rubber and how much of it is group-based derivatives just a rough indication will be fine?

BK Bansal: Yes. So natural rubber is 35% and then there is 3% of lead wire, other than that so remaining around 60%, 62% are crude derivatives.

Bharat Gianani: Next question from my side is in FY2020 we achieved approximately 201000 of finished goods of sales in metric tons so my question is that how much of, because 60000 MT was the capacity that we achieved towards the end of the year so my question is that in FY2021 how much was the Carbon Black that we could actually use or was it that full was utilized in FY2020 so that was my question?

BK Bansal: No, full was not utilized. So in FY2021 the internal consumption would be around 55000 and balance we would try to sell in the open market.

Bharat Gianani: No, Sir I am talking of FY2020, so FY2020 we would have required 54000 so were we able to source the entire 54000 from inside or we had to source from outside, that was my question for FY2020?

Rajiv Poddar: FY2020 since the time we started our manufacturing we have been sourcing internally only, so we have been able to do fully source from in-house because basically I will reclarify that so the hard line on the Phase I, which started off in June - July last year, since then the hard category we stopped importing, buying from outside and the soft, which we just started, so we have just stopped that and the full impact will come in this financial year, but we will be 100% self-sufficient from this year for all the grades.

Bharat Gianani: For FY2020 how much we were self-sufficient that was my question?

Rajiv Poddar: So from the time we started our hard line we were fully self-sufficient on hard grade. Soft grade we just started a few weeks before year-end so that is why that impact would not have come in that year, but from the time we have restarted we are fully self-sufficient, we are getting everything in-house, so because there are two different grades, hard grade and soft grades so we did not earlier make this upgrade, so which we had to keep on procuring from outside. We started our plant and overall there was a lockdown in the factory so that is why we could not utilize that and once we have restarted everything, but that was in this financial year, everything both hard and soft, both have been self-sufficient in-house.

Bharat Gianani: So just let me put it this way then what is incremental margin benefit that we are expecting from Carbon Black this year in FY2021?

BK Bansal: Around 100 to 150 basis points.

Bharat Gianani: Thanks and all the best. That is all from my side.

Moderator: Thank you Sir. We have next question from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: I hope everybody is well at the company. Sir first question is more in European agri market I think Poddar Sir if you could shed some light in terms of some of the countries, which have outperformed, as export data indicates France has been quite a big outperformer so have we also gained market share there something on that side of company?

Rajiv Poddar: Sorry, we lost the question. We lost connectivity a little bit. Can you just repeat the question?

Nishant Vass: Sorry for that. I was saying in agri Europe you are saying that there has been a strong traction so the data that we see from exports indicate that France is doing extremely well so I was just trying to understand is that also one of our strong markets, have we gained some overall market share in the European region last year on the agri front?

Rajiv Poddar: Yes. So basically France has been one where we have actively been doing branding and sponsorship with the title sponsorship of the Coupe de la Ligue football so we are seeing the impact coming in for that, there has been a good pull for us in French market also, so it is sort of giving a payback on that now with the brand recognition going up, so it has gone up nearly 10 to 20 basis points from where we started off, so you are seeing that in the numbers coming up and France has been a good traction point for us.

Nishant Vass: So basically the A&P spend that we have been doing are basically now starting to reflect on our market share side that is how we should think about that?

Rajiv Poddar: Yes.

Nishant Vass: You would assume this would be also replicable in other markets that you have been targeting in similar fashion, right Australia, Latin America and Italy, some of these other markets is that also how we should think about it?

BK Bansal: Yes. Overall there will be a good traction, yes.

Nishant Vass: For the full year was there any big market share change on the way you indicate market share globally any change?

Rajiv Poddar: No

BK Bansal: Year-on-year there is nothing because that way it has been very stable, but in the last quarter as I said the agriculture has been very good and that is because of the increased share in all the major European markets.

Nishant Vass: My second question is on the pricing. Obviously I heard BansalJi you made a comment about you put out a little bit of discount, so what drove that strategy just trying to figure out, is it a market softness driven action or you were trying to grab more, let us say, market share or what is the overall environment like on pricing?

BK Bansal: Yes. I think it was just a pass on of the reduction in the raw material cost nothing else. So there was nothing like strategy, it is a routine kind of pass on, which we generally do and this time also it was done.

Nishant Vass: But this would be market-driven, right because we maintain a differential between us and the leaders so that differential would be remaining the same, right?

BK Bansal: Correct.

Nishant Vass: Thank you. I will come back for more questions.

Moderator: Thank you Sir. We have next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: My question is related with the production side, what are the key challenges right now and what is the current capacity utilization?

Rajiv Poddar: So basically the current challenges as we all are seeing is there is exodus of labor, so we have to manage the labor, to retain the labor is one of the challenges, which we are facing. We are managing it, but it is a challenge on a daily basis and of course with the new guidelines of social distancing and making sure that the plant hygiene is kept upfront and everything, so these are the two big challenges, which are there. As far as the capacity utilization BansalJi, if you just put...

BK Bansal: Yes. So it is around 70%.

Abhishek Jain: So can we expect that the employee cost will move up in the coming quarter because of the labor issues?

BK Bansal: Not significantly but marginally. So already we took good care of them during this lockdown period and thereafter also, so we were fortunate to retain them and we did not experience any kind of big migration from our locations.

Abhishek Jain: Sir my next question is related with the competitive intensity so do you see a shift in the business from Chinese player to BKT in Europe and the U.S. and at what extent does BKT benefit in terms of incremental volume and markets there?

BK Bansal: As we have been telling always that Chinese players are not present in this segment in a big way, they are mainly present into PV and CV segment, ours is a very customized kind of business segment, so their presence is very limited, so we have not seen any kind of major competition from China.

Abhishek Jain: So who are the key competitors where you are finding a lot of the competitions?

BK Bansal: So there is nothing like we are finding any major competition. We have been competing with companies like Michelin, Bridgestone, Goodyear, Continental, Yokohama; these are the players, which have been there in the market for quite some time.

Abhishek Jain: Thanks Sir. That is all from my side.

Moderator: Thank you Sir. We have next question from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: I had two questions with the current capex that we are doing what kind of capacity increment or change in SKUs will we be having?

Rajiv Poddar: So one of the changes, as we have mentioned is that we will be getting into the ultra-large giant OTR tires so we have capacity up to 51-inch currently on these giant OTRs, we will be going up to 57 and 60 inch range.

BK Bansal: In Waluj basically we are just developing a Greenfield project so it will be replacing our existing plant, so on capacity-wise there will not be any significant addition into the capacity, our existing capacity is 3 lakh tons and with the addition of 5,000 MT on account of large OTR tires the overall capacity will increase to 305,000.

Samir Palod: The second I had was with the current agri customer situation in Europe are we seeing any change in terms of for farmers to buy newer tractors or are we still seeing a replacement demand growing more and more basically?

Rajiv Poddar: Yes. So we think that the replacement cycle in this current period the replacement cycle will be driven much more than the OE so we are pushing on that.

Samir Palod: So basically no one will buy newer tractors with the current liquidity position and the current situation, people will just reutilize their tires or change the tires itself that is it.

Rajiv Poddar: This possibility will be more than the OE, buying a new tractor so that is what we are thinking.

Samir Palod: Thank you Sir.

Moderator: Thank you. We have next question from the line of Dhaval Doshi from Pinpoint Asset. Please go ahead.

Dhaval Doshi: Thank you Sir. My questions have been answered. Great set of numbers. Congratulations.

Moderator: Thank you Sir. We have next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Most of my questions have been answered. Just have two more, one is for the India market you said the demand is equally strong in farm so is it possible for you to just give some color in terms of how the demand from OE and replacement has been, how the trend has been in farm and what is our market share now, the idea or our thought process was to focus on India as well for increasing your share so that is one and second for us the overall reliance on raw material is relatively lesser, but when it comes to other peers in the industry especially in India does that put us in a very significant advantageous position in terms of gaining share in India?

Rajiv Poddar: So on India front if you can see our numbers have been constantly growing. So earlier India share of business used to be about 6% and today it is roughly about 20% of the so we have seen a good acceptance of our product and the quality is good, people are now recognizing the brand with the various activities that we are doing with our brand ambassador Sunny Deol and other activities, especially sporting activities and overall branding that we are doing. There has been a good pickup of the brand, and good recollect and good connect at the farming level with the end users. Our market share in India would be per se in the last 3 years that we have been actively pursuing this market be growing as we see a good demand for us in India and we expect this to continue. As the brand gets more and more accepted in the replacement market we will see a pull in the OE market because our distribution network is now fully covering pan India and with that service is also possible so OE should also come in. India is one of our focused markets we foresee this focus to continue

Viraj Kacharia: How would be the industry OE replacement mix just to get a perspective in terms of what that opportunity could be for us?

BK Bansal: So OE would be around 45% to 50% and the replacement would be 50% to 55%.

Viraj Kacharia: Given the kind of RM environment we are seeing right now have you taken any price cuts in India as well?

BK Bansal: In India I do not think we have taken any price cuts.

Rajiv Poddar: No, nothing.

Viraj Kacharia: That is all from my side. Thank you.

Moderator: Thank you Sir. We have next question from the line of Pravin Yeolekar from CGS-CIMB. Please go ahead.

Pravin Yeolekar: Sir, my question was on the Forex, what was the hedging rate for the last quarter for us?

BK Bansal: Rs.80.

Pravin Yeolekar: Rs.80?

BK Bansal: Yes.

Pravin Yeolekar: How much are we hedged for the next year and what is your hedging rate going forward?

BK Bansal: So for the next year the rate should be somewhere between 82 to 83.

Pravin Yeolekar: Almost 65% we are already hit?

BK Bansal: Yes.

Pravin Yeolekar: Thank you. That is it.

Moderator: Thank you. We have next question from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: First of all I had one followup question related to one of the participants, the replacement and OEM mix, which we were talking about it, was on India basis right?

BK Bansal: No, it is globally.

Ankit Kanodia: So globally we will be having roughly around 55% replacement and 45% OEM?

BK Bansal: Yes broadly that.

Ankit Kanodia: What would be in India?

BK Bansal: India I think it should be similar we do not have accurate data.

Rajiv Poddar: Yes. In India it should be roughly 50%, 55% for OE and about 45%, 50% for replacement in India.

BK Bansal: Yes.

Ankit Kanodia: Another question would be the off-highway tire market globally has been declining if you take a long-term trend last 2, 3 years and we saw a huge jump in our volumes in the last quarter so is it only company-specific or have you seen anything improvement in the market as well as a whole?

Rajiv Poddar: So Mr. Ankit I think though numbers have been increasing steadily for the market size also we have not seen a decline per se in the overall off-highway tire market business, but yes we are growing faster than the market is growing because we are taking market share and gaining so that is the reason why our numbers are growing higher than the market pace growing, but market is growing slowly.

Ankit Kanodia: But in FY2020 the first 9 months I think the market was declining, right?

BK Bansal: Yes, that is because of the challenges in agriculture segment in Europe on account of unfavorable weather environment.

Ankit Kanodia: So my question was regarding that only so did that improve in the last quarter or it was more?

BK Bansal: Yes, it has improved.

Ankit Kanodia: One last question regarding our improving EBITDA margin it is predominantly due to lower raw material and better realization or something else regarding that?

BK Bansal: Yes. It will be a mixture of two, three things like increased share of Carbon Black utilization and lower raw material costs, better currency.

Ankit Kanodia: In the previous calls we have guided for about 25% to 26% as the EBITDA margin we can forecast for the future as well so would you maintain that or you think that, that could increase going forward?

BK Bansal: Which 25% to 26% for the tire business?

Ankit Kanodia: EBITDA margin.

BK Bansal: No, EBITDA margin is currently around 29%, 30%. Based on the current situation there is a good visibility of 30% plus kind of EBITDA margin.

Ankit Kanodia: Yes. So I think in the last quarter it was around 25%, 26% and you guided in the last quarter that the 25%, 26% is only maintainable in the long-term.

BK Bansal: Yes. That time somebody asked me the question, what is the long-term sustainable margin so that time I has guided that 25% to 26% is the sustainable long-term margin, but now we are talking of the current financial year so this is the number.

Ankit Kanodia: Okay. So for FY2021 you think that 28% to 30% can be maintained as EBITDA margin that is what you guided?

BK Bansal: Yes.

Ankit Kanodia: Thank you Sir.

Moderator: Thank you Sir. We have next question from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Sir first question would you be able to highlight what was the production for Q4 and full year FY2020 last year basically?

BK Bansal: So production for the last quarter was 51,000 MT and for the full year 194,000 MT.

Ronak Sarda: You highlighted there is some discounts or the price pass has happened due to lower commodity cost so what would be that number?

BK Bansal: 2%, 3%.

Ronak Sarda: Have you taken any more cut in Q1 as well or this was more or less Q4 number?

BK Bansal: Yes.

Ronak Sarda: I missed the current year euro hedge rate is it Rs.85 or?

BK Bansal: Rs. 82 to 83 for FY2021.

Ronak Sarda: But this is increasing, right?

BK Bansal: Yes. Last year it was Rs. 80 so now it has increased.

Ronak Sarda: No, I meant the current spot rates are around Rs. 85.

BK Bansal: Yes. But this is the rate as of today, but we do not hedge everything on particular day, we keep hedging on different rates so we do not get similar rates comparable to the current rate.

Ronak Sarda: So basically maybe FY2022 hedges rates will be around that?

BK Bansal: Yes, around Rs. 85.

Ronak Sarda: Last question on balance sheet side, if I look at your debtors and inventory days, those have changed substantially on a Y-o-Y basis for March numbers, debtors have increased and inventory days have come down is it more of a year-end adjustment due to the entire shutdown or this is something?

BK Bansal: No, there is no adjustment it is a routine thing, which happens in the normal course of business, so inventory levels have actually come down.

Ronak Sarda: Inventory levels have come down and debtors have increased.

BK Bansal: Debtors not significantly Rs. 568 crores to Rs. 640 crores so what happens the transit time is on our side, if there is any delay in the shipment of the goods, so to that extent our receivable days increases, otherwise from the strategy point of view there is no change.

Ronak Sarda: On the raw material side the inventory number would be the usual 45 to 60 days right there is no change in that.

BK Bansal: Yes, basically we cover our raw material requirement for around 75 to 90 days so any change in the raw material is basically reflected after the quarter.

Ronak Sarda: Thanks and all the best.

Moderator: Thank you Sir. We have next question from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: One very basic question our 3 lakh capacity is that for achievable capacity or total because...

BK Bansal: Achievable capacity.

Basudeb Banerjee: So basically even if your 2 lakh ton grows by 10% for 3, 4 years you do not need capacity addition even if you have a 12-month of lag period for doing Brownfield?

BK Bansal: Correct.

Basudeb Banerjee: Second question Sir in FY2020 your Carbon Black first phase ended and just at the fag end of the year the soft capacity also came on so now for FY2021 as you directed the volume remains around the 2 lakh tons you will require some 55000, 60000 and if I assume your Carbon Black facility runs at full so just for broader calculation so residual, 80000 tons how much EBITDA per kg one can factor in which you will get from external market?

BK Bansal: Overall Gross margin would be around 25% so I would not be able to tell you what would be the realized EBITDA per kg, but overall the EBITDA margin range would be around 11-14%. The EBITDA margin on internal consumption would obviously be better owing to various savings on same location plant.

Basudeb Banerjee: For the external sales?

BK Bansal: The margin is lower for external sales when compared with internal sales.

Basudeb Banerjee: Last question, Sir, as you have mentioned, distributors in Europe had almost 2, 3 months of inventory and 57000 tons of wholesaling this quarter, so how much was the global retailing this quarter Sir?

BK Bansal: Those data actually we do not have it is hardly available to us.

Basudeb Banerjee: I am just trying to understand because inventory was getting absorbed and your supply was also on the higher side so how to look at Q1?

BK Bansal: No, I would answer this question in this way that based on the order flow or order pattern we can say that there is a good demand at the retail level also on the consumer.

Basudeb Banerjee: Last question Sir, which I was trying to understand, which you earlier mentioned that your branding, marketing, other expenses one should look it from an absolute inflationary angle or more from a percentage of sales angle Sir?

BK Bansal: I think percentage to sales and the inflation element will not be very high.

Basudeb Banerjee: No. Because with volume increase your revenue increasing that also continues to increase, so if I keep percentage to sales remaining same ideally that should help operating leverage, but that typically does not happen?

BK Bansal: See, you will have to take range because most of the other expenditure are variables and some portion is fixed so if you see the range it is around 27% to 30% generally it remains into that range.

Basudeb Banerjee: So basically irrespective of volume and irrespective of raw mat basket one can broadly take that should be the range overall down the line?

BK Bansal: Yes. Until and unless there is a significant or exceptional movement otherwise you can take this as a range.

Basudeb Banerjee: Surely Sir. Thanks. That is all from my side.

Moderator: Thank you sir. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir!

BK Bansal: Yes. So thank you everyone for taking out the time to attend our call and in this tough environment I would say that please stay safe and take care of yourself. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Axis Capital that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.

Note: E&O Corrected