"Balkrishna Industries Limited
Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Balkrishna Industries Limited Q1 FY2021 earnings conference call hosted by IDFC Securities Limited. 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 risk and uncertainties that are difficult to predict. As a reminder all participant 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 this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Jain, from IDFC Securities Limited. Thank you and over to you Sir!

Chirag Jain: Thank you, Aisha. Good morning everyone. On behalf of IDFC Securities, I welcome you all to the Q1 FY 2021 Earnings Conference Call of Balkrishna Industries Limited. The company is represented by, Mr. Rajiv Poddar, Joint Managing Director; and Mr. B.K. Bansal, Director of Finance, representing the company. I would like to hand over the call to the management for their initial remarks and post that we will open for Q&A session. Over to you, Sir!

B.K. Bansal: Thank you, Chirag. Good morning, everybody. I welcome you all to the earnings call of our company for the first quarter. I am joined by Mr. Rajiv Poddar, Joint Managing Director; and Shogun from SGA.

Let me start with performance updates. Due to COVID-19, operations of the company remained suspended for most part of April 2020. The operations resumed during the last week of April 2020 when lockdown was partially lifted by the Government. After following stringent safety and security measures across all our plants, the company was able to gradually ramp up manufacturing activities in May 2020 and thereafter. The company has now gained normalcy in manufacturing activity as well as dispatches.

Despite COVID-19, Q1FY21 has been a good quarter for us. The pickup in sales volume in May and June led to a total sales volume of 38,096 metric tons in Q1FY21. The demand is strong in agriculture segment across geographies, reinforcing our belief on the potential of this segment, as well as the brand positioning of BKT in end markets, which is continuously helping us to gain market share.

The non-agriculture segment is moving slowly on account of low commodity prices and end-user demand. However, we expect gradual uptick as economic activity increases across the globe. Our diversified product portfolio, strong presence across the globe, multiple sourcing basis of raw material and a 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. In the current circumstances, we remain confident to maintain this momentum for the rest of the FY2021 and achieve sales volume at a similar levels as FY2020.

Let me now update you on the Capex. Post lifting of lockdown, the work on Greenfield tyre project at Waluj and other expansion activities at our Bhuj plant are progressing well. The company is trying to complete these projects as per schedule that is before March 31, 2021, subject to delay of one quarter, provided there is no further lockdown or any unforeseen circumstances.

With this, I now move on to performance highlights. Our sales volume for the quarter was 38,096 metric tons, showing a degrowth of around 26% Y-o-Y. This degrowth was on-account of lower manufacturing activity in April 2020 due to lockdown restrictions.

Our standalone revenue for the quarter stood at Rs.942 Crores, which includes realized gain on foreign exchange pertaining sales of Rs.13 Crores. The stand-alone EBITDA for the quarter was at Rs.251 Crores with a margin of 26.7%. The EBITDA was impacted on-account of lower absorption of fixed cost owing to lower production and sales.

Other income for the quarter stood Rs.33 Crores, which includes net loss on foreign exchange to the tune of Rs.8 Crores and other income from investment of Rs.41 Crores.

Coming to net forex items. For the quarter, we incurred a net forex loss of Rs.8 Crores, which includes realized gain of Rs.21 Crores and unrealized loss of Rs.29 Crores. Profit after tax for the quarter was recorded at Rs.122 Crores, showing a margin of 12.9%.

We are a net cash company. Our cash and cash equivalents was Rs.1,175 Crores, implying a net cash position on the overall side. The Board of Directors have declared an interim dividend of Rs.3 per equity share.

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

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Congrats on decent numbers. Firstly, I want to understand how is the domestic market shaping up? Because I think from other companies, we are hearing that tractor tyre sales were very strong. So for us, in India, how much of the sales come from tractor segment only and also, our market share if you can provide some color? And also in terms of reach, how we are spread as of now? And what is the scope for further expansion?

Rajiv A. Poddar: So firstly, now BKT's reach is PAN India. So we have our network across the country. Our global market share in tractor tyres would be roughly about 7%, and there is a potential scope to grow much higher, and we are focusing on that. And if you see, we have been slowly growing over the last 4 years and being able to reach these numbers. And we have got the product established now, we have got the network established, and we are slowly gaining market share every year and growing in this segment.

Ashutosh Tiwari: And we have present in all the SKUs, which are even domestic market in tractors as of now?

Rajiv A. Poddar: Yes.

Ashutosh Tiwari: And roughly what percent of domestic sales tractor?

B.K. Bansal: Domestic Tractor Tire sales is around 40% to 45%.

Ashutosh Tiwari: Secondly, if I look at the change in the stock during the quarter, there is Rs.50 Crores, I think production was more than sales because there was a Rs.53 Crores stock buildup. So is it that we produced more in the maybe June month or so and then these prices were impacted? Because generally, in this quarter, we have seen that companies have consumed the stock of last quarter and now there is a change, there is a portion higher than the sales.

B.K. Bansal: No. Generally, we produce as per our customer order only. But as I have explained many times that the customer places order for, say, 20 different SKUs and suppose out of 20, only 10 have been produced. Till the remaining 10 are produced, this will remain into inventory and form part of the inventory. So that is how this kind of inventory is built up temporarily in the system.

Ashutosh Tiwari: So basically production will be converted to sales in this quarter, okay. Okay. I got it.

B.K. Bansal: It always happens like that, yes.

Ashutosh Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Sharma from Perfect Research. Please go ahead.

Kunal Sharma: Good morning Sir. Sir, could you please shed some light on your guidance of achieving the same level of sales in FY2021 as we achieved in FY 2020 so what are the steps are we taking? Because your global competitor said on concall that Europe and U.S. are still disruptive market due to the pandemic and they also saw the same level of degrowth. And the last one is, sir, our ad and promotion expense contribute 4% to 5% of the sales. So are we trying to cut the expense for FY2021 because many companies are taking the same step? Thank you.

B.K. Bansal: So basically, I will answer your question in two parts. Firstly, on the sales, looking at what we have done in the last quarter, we are quite confident we will be able to hit the numbers of last year, and we are working hard towards that. As far as the ad spend goes, we are not looking to cut our overall spend. There may be some shift in where we are spending that money. But overall, we will maintain the same percentage of spend in sponsorships and other promoting methods for our brand.

Kunal Sharma: Sir, could you please share this for the current quarter, ad and promotion in a percentage of sales?

Rajiv A. Poddar: What do you want to know about the current quarter?

Kunal Sharma: Ad and promotion expense as percentage of sales.

Rajiv A. Poddar: It will be similar to what we have been spending.

B.K. Bansal: On an overall basis, so it is in the range of 2% to 3%.

Kunal Sharma: Thanks a lot. Best of luck for the next quarter.

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

Siddhartha Bera: Thanks for the opportunity. Sir, first, on the demand outlook. I mean, we have seen a very strong good growth in June numbers for the export market. So can you throw some more color on how July and August are looking up? And I mean, I understand that we have maintained our plan, but just wanted to understand more that how are the trends currently? How much is the pent up demand, in case you can throw some more light on that?

Rajiv A. Poddar: So demand is holding up and is good. But being this quarter numbers, we cannot discuss on this. But the overall demand looks positive at this side.

Siddhartha Bera: How much will be the domestic value growth in the quarter, volume and value growth if you can indicate that?

B.K. Bansal: So domestic there was a degrowth compared to same quarter of the last year.

Siddhartha Bera: Okay. On the volume side?

B.K. Bansal: Overall, local volume was, in the last year of the same quarter, 11,316 metric tons and which is now 9,402.

Siddhartha Bera: Sir, lastly, on the Carbon Black side, we had already commenced our second phase of the plant of 80,000 tons. So how much could we sell to the external markets? And how are we thinking about this for the rest of the year?

Rajiv A. Poddar: So basically, if you see the overall Carbon Black to set up with an idea to control our own supply chain and manage the inventory, including having a better control over quality. So that was the reason why we set up. We have never set up with an objective to have a high number of sales outside. So we are maintaining that. And some portion of it will continue to be sold outside in the market because you cannot have an apple-to-apple quantity being produced.

Siddhartha Bera: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir, first question is on the RM and price side, I mean raw material side, I mean, what is the direction of raw materials over the next, for Q2 and let us say, Q3, are we seeing some decline in commodities? And has there been any sizeable action in YTD FY2021?

Rajiv A. Poddar: So in the current year, there has not been any pricing action. Raw material prices directionally have come down. Going forward, it is difficult to predict what would be the scenario. But considering the current scenario, it looks that it will remain range bound only.

Ronak Sarda: Then maybe this quarter should be flat Q-o-Q versus Q1?

Rajiv A. Poddar: Yes.

Ronak Sarda: Sir, what was the production number for the quarter?

Rajiv A. Poddar: 41,576.

Ronak Sarda: Sir, last question. I mean, we have seen decent demand. However, if you can just bifurcate that into agri and industrial because I believe industrial should have seen some slowdown? And is that reflected in your ASP and product mix as well? I mean, the realizations?

B.K. Bansal: So basically, realization on overall basis has been around Rs. 247, which is better Q-on-Q and Y-o-Y. And what was your next question?

Ronak Sarda: Sir, the demand momentum which you are highlighting, I mean, is the strength in demand similar in both agri and industrial tyres? Because I think industrial should have seen some impact due to projects being stuck or activities not happening.

Rajiv A. Poddar: So agriculture has been better. With mining activities opening up, we are hopeful that this will also pick up. And also as things start unlocking, mining activities at quarries, will start opening up. So we are positive on that. But definitely, agriculture is better at the moment.

Ronak Sarda: So I mean, is that already happening? Let us say we are in almost in July, August, now August, mid-month now. So are we seeing that pickup happening industrial as well?

Rajiv A. Poddar: Yes, there is some pickup, but I think as the next phases of unlock happen, you will see a much better demand coming up.

Ronak Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thanks for taking my question. Can you just give us some operational data, maybe I have missed it like volume by region, Europe, America, rest of world, India, also agriculture, OTR and also the OEM replacement. So absolute numbers, please, so that we can analyze the results?

B.K. Bansal: Yes. So Europe was around 21,000.

Hitesh Goel: Yes. America, rest of world, India?

B.K. Bansal: America was around 3,500. Yes. India 9,400.

Hitesh Goel: Agriculture and OTR?

Rajiv A. Poddar: Agriculture was around 65% volume. That is from agricultural sector, rest came fromOTR and ATV lawn and Garden Tires

Hitesh Goel: 65%.

Rajiv A. Poddar: 65% in this quarter, right? Yes.

Hitesh Goel: Okay. And OTR would be around 32%? And then are others.

Rajiv A. Poddar: OTR mining, construction, industrial all put together would be about 32%, and the smaller tyres would the other segments would make up the balance.

Hitesh Goel: Finally, on the OEM and replacement.

B.K. Bansal: OEM is around 27% and the replacement would be around 70%.

Hitesh Goel: Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital Partners. Please go ahead.

Sanjay Satpathy: Congratulation on a decent set of results given the circumstances. First thing that I just wanted to clarify, I could not really hear properly. In Q2 you are looking at recovery, but did I get it right that you are looking at some flat number year-on-year?

Rajiv A. Poddar: Yes.

B.K. Bansal: Yes. As I said in my opening remarks that for the current year, we are looking at the similar volume number what we achieved in the last financial year.

Sanjay Satpathy: Yes, that is the full year. I am talking about this July, September quarter. Did you also state that? Because your numbers suggest that you will grow 8% to 9% for the rest of the year.

Rajiv A. Poddar: No, no. So sorry, we do not talk on quarter-on-quarter basis. And particularly for the current quarter, we cannot talk anything. So we generally give full year guidance, which is maintained.

Sanjay Satpathy: Understood. And Sir, can you share with us the market share that you have in agri products in different geographies like U.S.A. and Europe because you have mentioned that your market share in the North America region is particularly lower, and you are trying to kind of improve it. And we are trying to assess like what would have been the reason for your lesser market share in that region? And what are you doing about it?

Rajiv A. Poddar: Bansal Ji, you are sharing something or should I?

B.K. Bansal: You can go ahead.

Rajiv A. Poddar: So basically, on the agricultural side, in Europe, our share would be in double digits. It would be about between 12% and 15%. In Americas, it would be around 7% to 10%.

Sanjay Satpathy: When you were talking about increasing the share there substantially, are you talking about agriculture? Or you were talking about everything? And where, really, it can go to? Because your overall aspiration of global market share rising from 5% to 10%, that must mean a substantial increase in market share in these two regions where you are already at 10%, 12%.

Rajiv A. Poddar: So if you see that what we talk about a 10% growth is market share is for the off highway tyre industry as a whole, not just agriculture. So agriculture, we are getting there in most of the geographies. But other industrial mining segments, construction segments, which are larger in terms of value and volume, both are high. So in those, we need to increase our market share and that is why we aspire to grow in those segments in these geographies and hit our vision of 10% global market share.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Congratulations for a resilient performance. Just wanted to check, Sir, time and again, there are some news item mentioning about restriction being placed on imported rubber. So one of the key USPs of business model is we have been able to import duty-free because of high share of exports. So if it were to happen, how would it impact the business model? And is it practically possible for India to place a restriction on rubber imports?

B.K. Bansal: Yes. So basically, there are no restrictions as of now. As of now, we are getting rubber on a duty-free basis. And I think this may continue. And if duty is imposed we would be exempted under advanced license scheme, which we are enjoying. So I can say, that it should not have any negative impact on our business.

Shashank Kanodia: Secondly, Sir, large part of the capex would be behind us in this financial year at. So we will generate substantial amount of FCF next year. So do you intend to maintain the same dividend payout? Can we see an increase in dividend payout side, going forward for next year?

Rajiv A. Poddar: I think the Board will take a call on that. So I think we will wait and watch what happens on that. It is difficult to give an answer today on that.

Shashank Kanodia: Thank you. That is all from my side. Wish you all the best. Thank you.

Moderator: Thank you. The next question is from the line of Mayur Milak from BOB Capital. Please go ahead.

Mayur Milak: Just wanted to understand, we have been hearing that there could be some impact of demand on the Chinese, with the COVID thing going on. So just wanted to understand, would we have any kind of flavor where we believe that our share has gone up because of the Chinese slowdown in Europe, or you believe that the overall market has been expanding, and we have expanded in line with the market demand?

Rajiv A. Poddar: So we have definitely taken some market share gain as well in the last quarter also. So there are both the factors. There is definitely some strong demand as well as we have taken market share. So we have grown at a rate higher than the market has grown, but it will be difficult to attribute it to any particular point there are multiple factors, which have impacted our growth in the market share gain.

Mayur Milak: Right. Could you give a ballpark, maybe just some kind of difference as in what could be the gain in terms so what I am trying to understand here is that are we looking at an incremental gain because this is here to stay, from the demand perspective? Or we are riding the benefit of the Chinese slowdown?

Rajiv A. Poddar: As I mentioned, it is both. So basically, we are riding on strong demand as well as we are gaining market share from our competitors more people are using our tires and the branding that we have been doing is also helping us. The brand awareness has been growing. So the brand recollect is there. So all these things are attributing to our gaining market share over our competitor also.

Mayur Milak: Right. And you believe that this gain of market share could definitely be sustainable with the kind of branding exercise and quality exercises that you achieved?

Rajiv A. Poddar: Yes.

Mayur Milak: Thank you Sir. That will be all.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Congrats for decent set of numbers. Sir, what is the current channel inventory in volume and days terms? If there was any growth in target volume for the last quarter, which was not booked in the first quarter and that will be booked in the second quarter? As the production is looking higher than sales and probably you would have a fast inventory as well.

Rajiv A. Poddar: Sorry, I could not hear your question. Could you repeat that again?

Abhishek Jain: Sir, my first question is that what is the current channel inventory in volume and days terms? And second question is that if there were any goods in target volume for the last quarter, which was not booked in first quarter as production is looking higher than the dispatches and probably would be a fast inventory as well.

Rajiv A. Poddar: There is no change in the channel inventory. Yes, there is some overlap between, as Mr. Bansal clarified, that some items are produced but not necessarily shipping that quarter due to the order completion not being there. So you will see some benefit of that coming up in this quarter, but we want to wait and watch for the numbers to come up.

Abhishek Jain: So what is the current channel inventory in the U.S. and Europe versus the normal?

B.K. Bansal: That is around three months. Generally, they maintain inventory according to the procurement cycle. So it ranges between two to three months.

Abhishek Jain: Okay. My second question is related with the Carbon Black plant. What is the current utilization level of Carbon Black plant? And how much is the captive use?

Rajiv A. Poddar: Sorry, what was your first question on the Carbon Black? Your line is very muffled.

Abhishek Jain: What was the utilization level of Carbon Black plant in first quarter? And how much was captive use?

Rajiv A. Poddar: Carbon plant, it is running on optimal levels. That is being done. And that is been running on optimal levels. And roughly about 15% is what we are selling in the marketplace.

Abhishek Jain: Okay. And what is your medium target for the volume in the domestic front, Sir?

Rajiv A. Poddar: I am assuming this question is for tyre?

Abhishek Jain: Yes.

Rajiv A. Poddar: On the tyre, as we said, that we see India as a growth potential to grow this substantially to numbers higher than last year. And currently, about 20%, 22% of our sales is coming from India, and we are looking to grow this further.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good morning Sir. Congratulations for a great set of numbers. Just wanted to know, when I look at the global players' conference calls and presentations, they talk about channel inventory issues, and they are expecting further reduction in inventory by the channel partners and also the reduced demand outlook, both in North America as well as Western Europe. In that environment, is it possible for you to give some more insights into why we are looking for a better demand growth outlook from the market perspective?

B.K. Bansal: Rajiv Ji, can you answer this?

Rajiv A. Poddar: Basically, there is a lot of factors which will come in. So basically, if you go to see where the demand, we are seeing that currently, the demand on the agri side is quite strong. And we do not know about our competitors. But for us, we are seeing a good traction in the agriculture side. And on those basis we are gaining market share. So we are trying hard to achieve the same levels as last year, and that is what we maintain at this stage.

Rajesh Kothari: Got it. Since you are gaining market share, is it possible for you to give what is the growth of the industry, in which you are operating compared to your growth?

B.K. Bansal: So industry is basically growing at a CAGR of around 4% to 5%.

Rajesh Kothari: Thank you..

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

Bharat Shah: You mentioned that current year sales will match the last year. And in the first quarter, we have done about 38000 tons. Therefore, it will imply we have to do an average of roughly 55000 per quarter for the remaining three quarters. Is that match holding up?

Rajiv A. Poddar: Yes. As of now, we are quite we are quite confident to hit that number, come close or hit that number.

Bharat Shah: Second question, one of the earlier participants asked, but there was so much of background chaos. I could not hear the answer properly. What is the breakup of the turnover geographically and end-user industry wise that you are negative?

Rajiv A. Poddar: Yes. So geography-wise Europe is around 55%. America is around 10%,. India is around 25%, and balance is rest of the world.

Bharat Shah: End-user wise?

B.K. Bansal: As far as end-user wise, replacement is around 70% and OEM is around 27%.

Bharat Shah: Yes, I heard that then on the user industry breakup point?

Rajiv A. Poddar: Yes. So agriculture is around 65% and OTR is around 35%.

Bharat Shah: Sorry, agri is 65% and?

Rajiv A. Poddar: OTR is 32%.

B.K. Bansal: OTR is 32%. Construction and mining, yes.

Bharat Shah: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Shah from Turtle Star Portfolio. Please go ahead.

Sameer Shah: Sir, I have one question. Since last two years, we have been hearing that monsoons in Europe are not in favor, and that end of the year results in our volume not picking up to our expectations. Sir, what is the situation this year because we are almost in mid of August, if you could give us some sense on that side, so that we are not in for some kind of negative surprises later on?

Rajiv A. Poddar: So far, the monsoons, in Europe are okay. So we do not think that should be any bad spell debt or negative news on that front. However, we are keeping a close watch on that.

Sameer Shah: Okay. Sir, my one more question was on the margin side. FY2022, we had a 28% margin and in this first quarter, also, our margins are very healthy despite low volumes. So is this a fair assumption that given our Carbon Black and various other things, activities that you have taken up in the company, 28% should be a base margin for us from this level going forward? EBITDA margin is what I am talking about.

B.K. Bansal: Yes. So EBITDA, we have been always saying that the margin range for the near term, that is for the current year and next year, there is a good visibility of around 28% to 30%.

Sameer Shah: So despite flattish volumes, given the margins, we will have better numbers at the bottomline for sure. That is what it looks.

B.K. Bansal: Yes.

Sameer Shah: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just have two questions. First one, you talked about seeing degrowth of 20%, 25% in Q1 in India business. So if you could just talk about something, how is the trend in July, August so far? And for us, when we say we are in market share, is it largely a function of us able to deal with the supply chain or production better than the competition or just kind of some other element? These are two questions.

Rajiv A. Poddar: So basically on the India part, yes, the number is lower than last year. That is because, as Mr. Bansal said in his opening remarks, that practically, India was under lockdown for a significant portion of the quarter. Three weeks was a national lockdown, then we had other phases of lockdown before unlock started. So that had impacted in the results. July, August numbers, we cannot discuss about the quarter numbers because it is ongoing. However, things are looking positive and we are quite confident of India reaching growth numbers. So that is what I can comment on for this quarter. For your second question, it was about whether we were able to supply and manage our supply chain better. So yes, we were able to take care of that and ramp up quickly once government approvals came in, and so we were definitely able to do that. But it was a mix of a lot of things, which can be attributed to this. Of course, supply chain contributed to that, but better brand recognition due to the achievement and spend that we are doing. And also the quality acceptance, which was there, is being reinforced. So all these things put together has impacted the better numbers for us.

Viraj Kacharia: In India business, who have you been gaining share from? And again, on the India business, you talked about distribution expansion and SKU expansion. So are we done with that in terms of whatever gaps we had in the portfolio or in our distribution? Or that is still a leave up us in coming years?

Rajiv A. Poddar: So in India, the demand itself has been strong. Generally, we have been growing because we had a small base. So that is why we are growing our base and fulfilling the pan India network, which was missing. So now, as I mentioned earlier that now our network is spread across India, which about a year back was spread to about 75%, 80% of India. So these things are helping us fill the gap and, of course, the demand itself in India is strong. So both these factors are contributing to India's growth.

Viraj Kacharia: Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Shah of Girik Capital. Please go ahead.

Dhaval Shah: My question is on the Carbon Black project. Can you just briefly explain what sort of payback period are we looking at in this project on the investments, what we have made? This is the question.

B.K. Bansal: Basically, you should not look at this project from the payback point of view. The main objective to set up this project was to ensure uninterrupted supply of good quality Carbon Black because in the past, we had faced a lot of problem in sourcing it. So that has been the main objective. And the benefit of it from the third-party sales will automatically accrue to us according to the market condition.

Rajiv A. Poddar: Also just to add on to that, it also gives us a lot more control over the quality of the raw material that we are using. So it was a strategic call as opposed to a financial call. That is what we are trying to imply.

Dhaval Shah: Sir, your input-output ratio in Carbon Black in the tyre manufacturing process will be roughly 30%?

B.K. Bansal: Around 27%.

Dhaval Shah: Around 27%. Okay. And Sir, currently, our achievable capacity is 3 lakh. Am I correct?

Rajiv A. Poddar: Correct, in tyre business, yes.

Dhaval Shah: In tyres and we are expanding by another 5,000 tons at Bhuj?

Rajiv A. Poddar: Yes.

Dhaval Shah: Thank you.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Good morning Mr. Bansal and Rajiv. My question one is on the outlook on the global mining industry. So pre-COVID situation, we saw revival, we were seeing signs of revival after a long period of time. So what is your reading currently? I mean, what feedback you are getting from customers? Are they seeing the situation as temporary or they are assuming the damage to continue into FY2021 as well, based on the inventory stocking levels from them. Similar situation experienced in agri in Europe last year. Just your reading of this situation in the mining industry.

Rajiv A. Poddar: Basically, what sense we are getting is that there is yet a lot of uncertainty in the market. So it is difficult to predict or give a definitive answer from the end user as well. But yes, what people are saying is that slowly as the things are starting to unlock, demand, which have come to practically zero, is coming back..

Lokesh Manik: Understood. Sir, my second question is, so our realization is pretty volatile. We are at 247 a kg today. Same quarter last year would be 220, if I am not mistaken. So when we are looking at profitability, how do we set our realization then? I mean, do we look at profitability on a margin basis or a per ton basis either gross profit or EBITDA?

B.K. Bansal: First, let me correct, the last year realization for the same quarter was 237, not 220, which now, it stands at 247. I think going forward, at least for the current financial year, we can look at the similar kind of realization, based on the currency conversion, etc. and assuming that there is no pricing action.

Lokesh Manik: Sir, but do we look at it from a margin basis or a per ton basis, EBITDA or gross profit?

B.K. Bansal: Actually, it is not a sellers market. So we cannot dictate all the things or we cannot benchmark those things. Yes, we always try to achieve the best out of everything, we try to cover our currency, we try to cover our raw material cost, and we try to control our other costs. So the end result is better.

Lokesh Manik: Understood. So, you have to sell at whatever price you are getting and then work backwards,. Okay, understood.

B.K. Bansal: Yes, yes.

Lokesh Manik: That is it from my side. If I have anymore I will come back. Thank you.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherjee from Centrum PMS. Please go ahead.

Sabyasachi Mukherjee: Thanks for the opportunity. I just had one question. So we are actually hearing from a lot of OEs as well as ancillaries in the automobile segment that they are facing supply side constraints. Even if we hear the tractor OEMs, they are actually saying that demand is robust, farm demand is robust, but they are facing supply side constraints. So on that thing, are we facing any similar constraints or is it absolutely fine for us?

Rajiv A. Poddar: We have a good amount inventory for the raw material. So we do not have a concerns on that. As far as the demand goes, we are trying to manage our supply to them and trying to build that up constantly and send it out to them.

B.K. Bansal: Overall, there are no logistic issues from the dispatch point of view and from the sourcing point of view. And we are somehow able to get their services in time. So I can say that our operations are by and large smooth.

Sabyasachi Mukherjee: Great to hear. And the similar thing is observed in European or maybe the U.S. geography where you are not facing any kind of logistical issue. Is that a fair assessment?

B.K. Bansal: Yes, you can, yes. That is why we are able to make this kind of dispatches.

Sabyasachi Mukherjee: Thank you.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Pinpoint Asset Management. Please go ahead.

Ajit Motwani: My question is, if I look at our realizations, they have improved and our costs have also improved. But our margins have not improved because the volumes are not really higher. So is the competitive scenario decent enough or benign enough for us to capture this increase in gross margin to our EBITDA margin in the near future?

B.K. Bansal: See, gross margin is already at a very healthy level. If I see the current quarter, it is around 60%. And most of the things have already been priced into it. So I do not see any significant scope of improvement over there. But as the volume increases, the other cost elements will come down, which will improve the margin.

Ajit Motwani: So on this other cost, if I look at your volumes are about Rs.,38,000 today, and correspondingly, our other expenses are about Rs.250 Crores, Rs.260-odd Crores similar to 2Q levels, 2Q FY2020 levels where we had done Rs.45,000, and our other expenses were also similar, Rs.260-odd Crores. So is there some spend that we have not been able to curtail and hence, there is some scope there to save off? Would you elaborate on that?

B.K. Bansal: Yes, I understood your question. So basically, most of our cost is variable in nature. Even within the other expenditures, there are a lot of variable expenditures, which are clubbed like freight cost, sales and distribution costs, stores, etc. And around 10% is our fixed cost and even that is at EBITDA level. So that is more or less constant, and operating leverage benefit will come once the overall volume increases.

Ajit Motwani: So in that case, there is no pricing pressure then for us as of now.

B.K. Bansal: Yes.

Ajit Motwani: We could be able to capture this gross margin expansion going ahead.

B.K. Bansal: Yes.

Ajit Motwani: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Navin Matta from Mahindra Manulife Investment Management. Please go ahead.

Navin Matta: Sir, I just wanted to check what was the currency realization for the quarter?

B.K. Bansal: It is around Rs.84.

Navin Matta: Okay. And given that spot is higher, do we expect this to move up further? Or how are hedges placed currently?

B.K. Bansal: Yes. So as you know, we are hedging continuously. So the current level would be captured in the next financial year.

Navin Matta: Okay. So for FY2021, we should be around this Rs.84 level?

B.K. Bansal: Rs.84 to Rs.85, yes.

Navin Matta: Okay. And then secondly, I just wanted to know if in our gross margins, are they reflecting the entire benefit of the softening in commodity prices?

B.K. Bansal: Yes, more or less.

Navin Matta: I missed your comment on the fixed costs, which you were explaining to the previous participant. So basically, just looking at your other expenses, the drop year-on-year is not very significant. So I just wanted to know in terms of direction, is there scope there for an improvement?

B.K. Bansal: See, , the overall number will remain same because the variable cost will increase in proportion to sales, and other costs would remain same. And we are that way, very cost-efficient company. So there is not much scope of any kind of significant cost improvement. Having said that, we always make endeavor to keep our cost under control and try to improve it further to the extent possible.

Moderator: Thank you. The next question is from the line of Varun Arora from Safe Enterprises. Please go ahead.

Varun Arora: Congrats on good numbers. Sir, my question is related to the EBITDA margin guidance. Did you say 28% to 30% that is shaping ahead? I mean that is the medium term guidance?

B.K. Bansal: Yes, at least for the current financial year.

Varun Arora: Sure. Sir, just on this guidance, are you being on the conservative side? The reason I am asking this question is because I feel like in FY2017 and FY2018 period, we were doing margins of around 29% to 31%. And since then, we moved to a more efficient plant, we have got the Carbon Black, so that itself should give 1% extra margin and there is efficiency of better plant, also like operating leverage should also kick in. So just trying to see if we are being on the conservative side as far as margins are concerned? I guess raw materials are also at the similar levels.

Rajiv A. Poddar: Yes. So I understood. Basically, what we are seeing is the directional view about the margins. Having said that, it does not mean that it will be remaining under this range only. If there is a scope, it can improve also.

Varun Arora: Right. And any levers, sir, like I mean, you mentioned some of the levers, which should kind of push the margins higher, but any levers, which is kind of pushing it down? Has anything changed, I mean what is different compared to back then, which should put pressure in margin, is there any lever?

B.K. Bansal: No. I do not think there are any such levers, which can push any kind of pressure, at least in the short term. Raw material prices are also range bound. ASP is better, so that way, visibility is good. But the overall environment is so dynamic that it is difficult to take long-term call.

Varun Arora: Sure. Under the current environment, would you say, I mean, like ignoring the first quarter because it was impacted, but I mean, we are on track to do 30% plus EBITDA margin, at least 30% plus?

B.K. Bansal: I mean it is difficult to say exact number. But definitely, I can say that the margin in the subsequent quarter will be better than first quarter.

Varun Arora: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Bhaskar Bukrediwala from ASK Investments. Please go ahead.

Bhaskar Bukrediwala: Sir, just wanted to understand, you have been talking about taking a lot of initiatives in the mining sector, particularly in U.S. and other markets. So how has been the traction for you in terms of it could give us a sense, even qualitatively, are you being able to make inroads, have you been able to get some bit of additional market share from where you were? That would be helpful, Sir.

Rajiv A. Poddar: Yes. So on the mining side, yes, our efforts have been getting good inroads in the end markets, and we have been able to gain more entry point in the mining sector.. And our products are now running, and they are giving good results. So there is a good traction coming back. Repeat orders are also happening. So we are definitely increasing our market share. And for us, the market in this segment is expected to inch up as unlock happens, and so we will continue to grow. You should see results coming.

Bhaskar Bukrediwala: Sir, just two small follow-up. What would be your current market share in the mining sector? And if you could give us a sense what do you think that you would be able to achieve, let us say, the next three to four years from where you are?

Rajiv A. Poddar: So currently, we are at about roughly 2% to 3% in this. And we envisage to go to about 5% to 6% in the next two to three years, in the mining sector, I am talking about mining particularly.

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

Bharat Gianani: Congrats on a good set of number in such a challenging scenario. Sir, my first question is the currency hedges. What was the Euro rate that we realized in FY2020, Sir?

B.K. Bansal: FY2020, it was around Rs.78, Rs.79.

Bharat Gianani: Sir, coming on the Carbon Black plant, what is the current, like, we had initiated Phase II as well. So can you give us an update on the production? What was the production of Carbon Black? Or what you have reached in terms of metric tons as of now, combining first phase and second phase?

Rajiv A. Poddar: So basically, both the phases are live. And both those phases put together have capacity of 140,000 MTPA and we are running both of them at optimal levels.

Bharat Gianani: Okay. So current production would have reached like I mean, what is the current production level, sir, on an annualized basis?

Rajiv A. Poddar: On annualized basis, it could be around a hundred and 110K to 115K because 140K is the installed capacity and achievable is 120K. So we should be close to about 110K to 118K because we would ramp it up slowly..

Bharat Gianani: Sir, you said in the earlier I think that out of this, 15% is sold outside, right?

Rajiv A. Poddar: Yes, 15% to 18%, yes.

Moderator: Thank you. That was the last question. I will request the management to please add any closing comments.

B.K. Bansal: I would thank you, everyone, for taking out their time and joining our call, and urge everyone to take care of themselves and be safe. Thank you.

Rajiv A. Poddar: Thank you. Thank you.

Moderator: Thank you. On behalf of IDFC Securities, that concludes today's conference call. Thank you for joining us, and you may now disconnect your lines.