"Balkrishna Industries Limited
Q2 FY2022 Earnings Conference Call"

November 12, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings conference call for Balkrishna Industries Limited hosted by ICICI 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 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 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 the conference call, 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. Nishant Vass from ICICI Securities. Thank you and over to you Sir!

Nishant Vass: Thanks, Nirav. Good day everyone and thanks for joining us today for the call. From the management side, we are represented by Mr. Rajiv Poddar, Joint Managing Director and Mr. M S Bajaj, Chief Financial Officer. Now I would like to hand over the call to the management for their initial remarks. Over to you Sir.

Rajiv Poddar: . Good Morning everyone and thank you for joining us today. Wishing you season's greetings. I hope all of you along with your near and dear ones, are safe and healthy. Along with me I have Mr Bajaj, President Commercial and CFO and also SGA our investor relation advisors.

Let me begin with the performance updates. Demand continues to be robust across segments and geographies. Accordingly, we have clocked our highest ever quarterly sales and reported 72,748 metric tonnes for the Q2 of FY2022. We expect this momentum to continue and therefore, we are increasing our guidance and the revised guidance stands at a range of 275,000 metric tonnes to 285,000 metric tonnes for FY2022. This guidance is on the back of strong demand trends. Some portions of the incremental logistic cost have been passed on to the customers, which is reflective in our Q-on-Q increase in early selling price. To meet the growing demand, the board has decided to continue operations at the old Waluj plant. To achieve this, there will be a capex of Rs.350 Crores in the form of installation of latest machineries, replacement of certain machineries, upgradation of certain systems and some portion of civil work. The advantage of this capex will be to get the much needed capacity enhanced in a short period of time. The old Waluj plant post this capex will be able to produce 25,000 metric tonnes per annum. This capex will be incurred over a period of the next six to nine months. We expect this capacity to be available from Q3 of this financial year FY2023. The current achievable capacity is 285,000 metric tonnes per annum. This includes the new Waluj plant that commenced operations in September 2021. The Brownfield capex at Bhuj announced in February will add 50,000 metric tonnes per annum and now the old Waluj revamp plant will add additional 25,000 metric tonnes per annum. Therefore, the entire capacity by the end of FY2023 will be 360,000 metric tonnes per annum of achievable capacity. In October 2021, the company raised long term finance of Rs.500 Crores. This was done in the form of rated, listed, unsecured, redeemable, nonconvertible debentures having a face value of Rs.10 lakh per debenture. To leverage the interest rate and our Euro receivables, we have swapped the debentures liability to Euro fixed liability. Therefore, the effective interest rate will be 0.055% per annum. The repayments of these debentures would be spread over three and a half years.

With this, I now move on operational issue highlights.

Our sales volume for the quarter was 72,478 metric tonnes. This is a growth of 19% year on year. For the first half of FY2022, sales volumes stood at 141,356 metric tonnes registering a growth of 42% year on year.

Our standalone revenue for the quarter stood at Rs.2080 Crores, which includes realized gain of foreign exchange pertaining to the sales of Rs.30 Crores. For the first half of FY2022, the revenue stood at Rs.3908 Crores, which includes realized gain on foreign exchange pertaining to the sales of Rs.45 Crores.

In our first half of FY2022, 54% of the sales came from Europe, 17% from India, 17% from the Americas and the balance from the rest of the world. In terms of channel contribution, 70% was contributed from the replacement segment in the first half of FY2022. While OEM accounted for 27% and the balance came from off take. In terms of category agriculture segment contributed 66% in the first half of 2022 while the OTR industry and construction contributed 31% and the balance came from other segments.

The standalone EBITDA for the quarter was Rs.564 Crores with a margin of 27.1% while the first half EBITDA stood at Rs.1099 Crores with a margin of 28.1%. Other income for the quarter stood at Rs.62 Crores while unrealized gain stood at Rs.27 Crores. For the first half of FY2022, other income stood at Rs.102 Crores while unrealized gain stood at Rs.43 Crores.

Coming to the forex items for the quarter, we incurred a net forex gain of Rs.71 Crores, which includes realized gain of Rs.44 Crores and an unrealized gain of Rs.27 Crores. For the first half of FY2022, we incurred a net forex gain of Rs.110 Crores, including a realized gain of Rs.66 Crores and an unrealized gain of Rs.43 Crores.

Profit after tax stood for the quarter at Rs.377 Crores with a margin of 18.1%. For the first half of 2022, profit after tax stood at Rs.708 Crores with a margin of 18.1%. The contingent liability as of March 31, 2021 was Rs.65.4 Crores as disclosed in our annual report. In the Q1 of FY2022, certain tax assessments have been completed and the liability was crystallized at Rs.35.7 Crores, which was included in the tax expanse in Q1 FY2022 as income tax of the earlier years. In Q2 FY2022, the remaining tax assessment has also been completed and the balance liability has also been crystallized in the quarter and the same has been included in the tax expenses as income tax of earlier years.

Our gross debt stood at Rs.1443 Crores. Our cash and cash equivalent were at Rs.1659 Crores which is a net cash position.

For the first half of FY2022, we incurred a total capex of Rs.838 Crores. Of this approximately Rs.700 Crores has been spent on the new capex program of Rs.1900 Crores.

For Q2 FY2022, the Euro hedge rate was at Rs.87.75. The forward head rate currently stands at Rs.89.70.

The board of directors have declared a second interim dividend of Rs.4 per equity share in addition to the Rs.4 per equity share in the Q1 of FY2022. With this, I conclude my opening remarks and leave the floor open to Q&A.

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

Ashutosh Tiwari: Congrats on good volume performance. Firstly, we are seeing very sharp inflation in RM cost on a quarter on quarter basis. If I look at per tonne number, it has almost gone up by 12% so why has it gone up so much basically because I think generally the company was saying 4% to 5% increase in this quarter?

M S Bajaj: Good morning. We are able to pass some shipping costs to the customers, and we have recovered the shipping cost. That is why our RM cost is showing less.

Ashutosh Tiwari: The shipping cost would ideally be part of other expenses ?

M S Bajaj: The raw material cost because we are importing the raw materials and 45 days inventory is in transit so that is why the raw material cost is lower.

Ashutosh Tiwari: Secondly, on the Waluj plant because we see such a strong demand and the old Waluj plant was operational till I think September because all the productions have been for that plant only so why cannot that plant be operated even now if the demand is so strong? Why do we have to refurbish and then only restart the plant in say next year?

Rajiv Poddar: Certain equipment's which were operational were shifted to the new plant, so we need to create the whole old pipeline and everything and the civil work was very old. The pipes were very old so that was the whole reason why we went out to a new plant. Those things need to be repaired. The utility section needs to be revamped before you start up some new product so we have taken this call to do it and get going. It will take us six to nine months to get going on that.

Ashutosh Tiwari: Thank you. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Nishant Jalan from Axis Capital. Please go ahead.

Nishant Jalan: Congratulations on a very good set of numbers. Sir, my question is on the cost front? You did talk about that the ASPs are higher because some of the abnormal increase in freight expenses which have been passed on to the customers so I just wanted to understand what is that quantum within the revenue trying to understand where ASP will settle down once this freight rates normalize? What are the underlying business ASPs and how many ASPs are higher because of this higher freight cost?

Rajiv Poddar: If you see our earlier realization was about Rs.266. which is now currently at Rs.286 so we have passed on around 2% to 3% in form of the price hike in July. The majority of the balance was owing to shipping cost reimbursement. We expect Asp's to be at earlier levels only.

Nishant Jalan: On RM cost, we have seen a further spike in crude in the last three to four months right? It has gone up almost 35 so do you see inflationary pressures in crude derivatives such as synthetic rubber, carbon black, tire fabric etc. in that context, how do we see RM cost increasing over the next couple of quarters?

M S Bajaj: Yes next quarter some cost will increase of the raw materials 2% to 3% cost increase will be there.

Nishant Jalan: Thank you so much.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Sir, my question pertains to the price hike? In July we took 2% to 3% any further price hikes post July or we are waiting the price hikes from the competition?

Rajiv Poddar: We are proposing to take from January. We are working out the percentage, but we are expecting to take another price hike from January.

Jinesh Gandhi: With respect to the capex earlier we were guiding for about Rs.1000 Crores of capex in FY2022 you have given that we are expecting a capex and old Waluj had also come in? What will be the capex for FY2022 and FY2023?

Rajiv Poddar: Earlier our guidance was Rs.850 Crores to Rs.900 Crores in this financial year, but now we are looking to revamp it to Rs.1100 Crores in this capex of this year and similar amounts in the next financial year, which will cover both the project cost.

Jinesh Gandhi: Second half you will be investing just about Rs.300 Crores is it? During the first half was Rs.800 odd Crores?

Rajiv Poddar: No Rs.400 Crores. I said in my commentary that about Rs.700 Crores was given in the first half of this financial year. Rs.800 Crores was total capex. I will repeat my statement. For the first half of FY2022, we incurred a total capex of Rs.838 Crores. Of this approximately Rs.700 Crores has been spent on the new capex program. We are now saying that for this financial year, we will spend about Rs.1100 Crores so that means about Rs.400 Crores will be balanced.

Jinesh Gandhi: Right so Rs.1100 Crores is the project capex rest will be maintaining?

Rajiv Poddar: Yes

Jinesh Gandhi: I got it and one last question on the logistic side so freight rate seems to be coming down after seeing a substantial spike, but are we also seeing any improvement in the availability of containers?

Rajiv Poddar: Firstly the price hike, we see stability. We are not seeing the price going higher now. Still, we do not see it coming down at least in this quarter and yes some availability has improved, but yet it is a challenge to get the containers that we desire and the volume that we look at, but yes from before it is slightly better in terms of availability.

Jinesh Gandhi: Got it. Thanks. I will come back in the queue for my other questions.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Thank you for the opportunity. I just have two questions. One is on the ASP you mentioned that the ASP for the quarter is slightly inflated because of the freight cost so what I wanted to understand in the December quarter and possibly in the March quarter if the freight rates remain at these levels so the 2Q level of ASP should be expected to continue for us if you take a further price increase. Still, the freight element in 2Q would be expected to repeat in 3Q and 4Q as well or did 2Q include some freight element from the previous quarters as well because of which this quarter is artificially inflated?

Rajiv Poddar: 2Q did not have anything from Q1 so it was there. Q3 we expect it to be at the same level. Q4 may go up marginally because we are going to look at a price increase in the last quarter so that impact may come in but shipping cost will maintain itself if there is no further increase.

Joseph George: Understood Sir and the second question that I have was in relation to the capacity. You mentioned that currently it is about 285. With the two phases coming in, the refurbishment of the old Waluj and the new Gujj we go to 360, but would it be right for me to assume that for the next quarter till the old Waluj refurbishment happens, your capacity will stay in the current levels of 70% to 75% which is 25% divided by four?

Rajiv Poddar: Yes, you are right. We will be seeing some increase from Q3 and Q4 of next financial year.

Joseph George: Understood Sir. Thank you,

Moderator: Thank you. The next question is from the line of Vimal Goel from Union Asset Management Company Private Limited. Please go ahead.

Vimal Goel: Thank you for the opportunity Sir and congratulations on very strong volume performance. Sir, my question is you have given out a volume growth guidance of almost 25% for FY2022. I just wanted to get a sense of how much has the industry growth or what is your expectation of the industry to grow and the connected question would be if you could just share what is then your market share globally in the OTH tires? I have a followup question on that one more?

Rajiv Poddar: You want to go ahead with the other question.

Vimal Goel: I will just go ahead sure. If I heard you right on the capex you have mentioned that you will spend Rs.1100 Crores plus maintenance capex for FY2023 and FY2024 each right?

Rajiv Poddar: Yes.

Vimal Goel: Fair enough sure.

Rajiv Poddar: Coming to your first question there is no authenticated data on market growth per se, but our estimate is the market has grown about 4% to 4.5%.

Vimal Goel: What will be your market share in agri and the other segments?

Rajiv Poddar: Overall if I look at it globally off highway we are about 5.5% to 6%.

Vimal Goel: 5.5% to 6% is your market share okay fair enough. Thank you so much and all the very best.

Moderator: Thank you. The next question is from the line of Arun Subramanyam from Ampersand Capital Investment Advisors LLP. Please go ahead.

Arun Subramanyam: Sir, my question is that at the end of Q1 you had said that your cost are higher but still the precautions that you are taking you will be able to maintain your EBITDA margin at 28% level and then Q2 we have seen it falling below that so do you think that your full year guidance still can be achieved?

Rajiv Poddar: As we have always maintained our endeavor has always been and will be during the long term to maintain an EBITDA margin of 28% to 30% on sustainable basis so that is what we are trying to do and a quarter on quarter is very difficult to see but we are close to the 28%. We are not very far out and we expect that, we will make our best endeavor to maintain 28% to 30% for the year.

Arun Subramanyam: Understood and Sir now that you are fixing all these capacity constraints forget about the shipping side, your own capacity improved there in terms of meeting higher demand do you have the flexibility to improve your product mix that is given preference to higher margin product or something which can help you achieve better margin?

Rajiv Poddar: We normally do not do that because eventually you have to serve the market. Every product of ours is important and it is all needed. I cannot only give the tractor rear tire and not give the front because we need all tires to operate the equipment so we have to service the market also so it is very difficult to do those changes for a quarter or something in that sense because eventually in the long term, we have to give customer care and customer service also.

Arun Subramanyam: Lastly Sir if I can just understand that your total capacity you are increasing it by just about 20% and which means that again facing capacity constraints very soon and it looks like you are underestimated the market demand for your products and whatever so it looks like you are behind the curve in terms of your ability push out more sell? Are you kind of thinking of doing something so that such a situation may not recur?

Rajiv Poddar: Firstly I think we estimated the market to come like this and that is why we started our projects about a year back. . We made announcements and we started working on that and that is the reason by the time we are hitting our full capacity our production will be up so as we said Q3 onwards we will start getting more products with us so that was our estimation which we have done and in the long term we are again looking at what is the possibility in and working and that will be our next round of capex which we will do as soon as we are starting competing for this round of capex.

Arun Subramanyam: And you have enough land and all those things in place?

Rajiv Poddar: Yes.

Arun Subramanyam: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Good morning Sir I wanted to understand there is a sharp increase in other expenses on a sequential basis also and so just wanted to understand if that is related to the shipping cost or is there some other factor?

Rajiv Poddar: The other expenses have risen by about 70 basis points Q-o-Q which is mainly on account of shipping cost, which we were not able to pass on to our end users.

Sonal Gupta: Just on the shipping cost what portion of shipping cost can we say ballpark you are passing on? How much is passed through for you?

Rajiv Poddar: We do not have that number readily available but we will take it offline.

Sonal Gupta: Where am I coming from is that like right now we are seeing a very high increase in shipping cost and that is meant that you have like you mentioned in your realizations also seen an improvement because there is some pass through of the shipping cost but these things can change sort of rapidly so I am just saying that once the shipping cost comes down those charges to the customers will also come down right?

Rajiv Poddar: Yes 100% they will come down. Very approximately about 50% of the shipping cost has been passed on.

Sonal Gupta: What will be the total shipping cost of any number you can give?

Rajiv Poddar: Approximately 6% to 7%.

Sonal Gupta: This is at current rates like it would have been lower in the past right?

Rajiv Poddar: It has been lower. It has been about 2% in the past, 2% to 2.5%.

Sonal Gupta: Just my last question like more from a longer term perspective you mentioned that the current expansion is taking place but are there any product lines or new product areas that you want to get in to or like I understand you have a significant runway in terms of the market share gain that you can achieve so it is just more of market share gain or do your product lines also need to change a little bit as you try and expand further?

Rajiv Poddar: No, it is mainly the same product line in the tire so meeting all the demands in these geographies and these segments.

Sonal Gupta: Got it great. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Kaushal Maroo from DSP Mutual Fund. Please go ahead.

Kaushal Maroo: Sir, you talked about a very strong demand environment Can you give us some more colour between agri and mining and the different geographies that gives you the confidence for rising the volume guidance?

Rajiv Poddar: I think overall we see strong demands in all sectors so it is difficult to say agri or industrial or construction so all segments have been good and robust and also the H1 performance has been strong enough so where we have clocked nearly 140,000 metric tonnes so with that on that basis what we are seeing that we can probably get these numbers of what we are talking about.

Kaushal Maroo: How has been the demand in the US per se and in mining?

Rajiv Poddar: US has also been good and we are gaining market share also over there so it has been a good quarter.

Kaushal Maroo: Overall on mining side efforts with the new product lines that we are talking around is a there visible improvement in market share in the mining sector?

Rajiv Poddar: Yes, if you see our overall product basket earlier was what was 8% has gone to 13% in OTR and mining so there is an increase from 8%.

Kaushal Maroo: The product basket going up Sir?

Rajiv Poddar: No from our share of product in the segments 66% came from agriculture and OTR contributed to about 13%, which was earlier about 8% to 9% so there is a significant gain in that.

Kaushal Maroo: Got it. Thank you Sir.

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

Raunak Sarda: Thanks for the opportunity. Firstly in Q2 can you just give us a ballpark number of the cost of natural rubber, synthetic rubber and the added cost in terms of per kg?

M S Bajaj: Natural rubber average cost was around Rs.137 kg and synthetic rubber was around Rs.152 kg.

Raunak Sarda: Thanks. The other question was from almost two to three years we are operating at 100% utilization now so excluding the shipping cost can you highlight where do we see the operating leverage benefits because despite at key utilization margin both in terms of per kg or percentage if you look at it, it looks to be on the reverse side?

Rajiv Poddar: No, I think if you see the staff cost, etc., is all down but unfortunately the RM cost and shipping cost has gone up so significantly that they have overshadowed the cost benefit that we have got, but if you see where the RM cost should have been impacted in the shipping cost if we have passed on that without having these other improvements the margins would have been on a different page so because we are able to get got gains it is not down to the extent that they have impacted us.

Raunak Sarda: Got it sure and just a clarification on the previous question our mix on OTR is almost 31% odd you meant mining of that has gone up to 13%?

Rajiv Poddar: No OTR, industrial and construction contributed to 31% of that 13% came from the mining business.

Raunak Sarda: And that used to be 8% two years ago?

Rajiv Poddar: 8% to 9%.

Raunak Sarda: Sure and is there a possibility given on the demand scenario is you will have to start prioritizing the sales to different geographies right now or are we able to manage the production over the next two or three quarters?

Rajiv Poddar: No, we are managing that. Customers knew that we are at these levels so they have been placing orders based on their requirements so at the moment we are managing it.

Raunak Sarda: Sure. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Pramod Amte from InCred Capital. Please go ahead.

Pramod Amte: Sir, the first question is about the European Agri demand situation so if I were to look at ETMA, so it shows a 16% decline for the September quarter for the replacement market what is happening in the European replacement market for tractor tires and do you see this deceleration to continue?

Rajiv Poddar: We see a good demand in the European tractor replacement market, and we expect it to continue.

Pramod Amte: But if I were to look at the last two to three years trend what happens is you also usually follow the industry right so what are you doing this time, which can make you outperform consistently forward?

Rajiv Poddar: I think all the branding efforts that we have been doing the marketing and branding in Europe arecoming into play now so that is one aspect we have been doing differently. Our channel partners have also been planning better, so I think the combination of many things put together has happened.

Pramod Amte: Will you be able to give the market share increase you might have had in the European replacement market?

Rajiv Poddar: It is difficult to give the numbers because there is no authenticated data as to what is the market share and what it is that so it is difficult to give those numbers.

Pramod Amte: ith regard to the Waluj plant with the new capex is there going to be a product profile change that is going to happen from the same plant?

Rajiv Poddar: Yes, marginally, it will be different what they were doing earlier and also what the tires are required so very marginal but it will be in the same segment and that is why this capex is required to adhere to that production capacity.

Pramod Amte: Am I right in understanding it was earlier India agriculture cross ply tires so you will continue to make the same from this plant?

Rajiv Poddar: It was the cross ply tire but not for India. It was for export also and now it will be agriculture as well as industrial tires for India and abroad both overseas.

Pramod Amte: Sure thanks a lot for this.

Moderator: Thank you. The next question is from the line of Chirag Jain from DAM Capital Advisors Limited. Please go ahead.

Chirag Jain: Thanks for the opportunity. Just a clarification in terms of capacity from a medium to long term perceptive how much more let us say head room we have in terms of Brownfield expansion beyond let us say 360K MTPA capacity that we are doing and when probably we would have to go for Greenfield expansion? Any color on that?

Rajiv Poddar: So we are already working on that. We do not have the details of that yet ready but for the time being we have sufficient space to do Brownfield before we do another Greenfield. Our estimate is that we could do another round of capex as a Brownfield before we need to start searching for Greenfield.

Chirag Jain: Even beyond 360K MTPA we have let us say reasonable headroom for a Brownfield expansion before letting us say going for a Greenfield expansion?

Rajiv Poddar: Yes.

Chirag Jain: That is helpful. Second on the RM cost inflation any number or data point that you can share that compared to last year or last quarter how much increase we have seen and how much price hike let us say we have done and the kind of under recovery so far?

Rajiv Poddar: In the quarter we did about 2% to 3% of price hike in July and on the RM cost question was?.

Chirag Jain: In terms of the cost increase and maybe the under recovery so price hike has been 2% to 3% so how much let us say more price hike we would need to pass on let us say the fully RM cost hypothetically?

M S Bajaj: So raw material price increase overall on the total cost was approximately 2.5%, but the shipping cost was much higher so raw material cost we have covered almost fully but shipping cost there is deficit.

Rajiv Poddar: We are planning to take a price hike in the Q4 of this year financial year so that should get covered. If there are no further increases we should cover the bases over there.

Chirag Jain: By and large, we are passing on the cost impact from raw material? Is it just that we partially have covered on the shipping side and we plan to do it in January?

Rajiv Poddar: Correct at today's levels. If there is a further increase then that may lag by another quarter.

Chirag Jain: Understood. That is it from my side. Thank you.

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

Ankit Kanodia: Thank you for taking my question. My question was related to the kind of expansion, which we are doing in terms of the capacity? Do we think there could be a scenario in maybe late FY2022 or FY2023 that our capacity is the constraint compared to the demand which we would witness? How much of that risk would we prescribe to it today?

Rajiv Poddar: So as you know as you have been seeing we are already starting to plan a year in advance for this so as and when we start reaching capacities coming up we will start planning the next quarter and next round of capex also so because Brownfield is always like that where once you hit a certain number and once that has happened then you start planning for those so that is what is going to happen but we can easily do another round of capex over here in these Brownfield waves before we need to start looking out.

Ankit Kanodia: Any number you can put in how much time it will take to bring up the Brownfield up to what capacity in terms of metric tonnes?

Rajiv Poddar: From Q3 of next financial year this round of capex will start kicking in. It will be completed by the end of the financial year FY2023 so you will have that and by that time we will see the scenario and we can start painting because the Brownfield will take us about 12 months to come so by that time this is getting ready and getting utilized we will be ready for next round of capex and also starting the work on that.

Ankit Kanodia: Thanks. Second question was related to our market share. As we had discussed in our earlier calls as well in the period when the overall global market was pretty stagnated, we still continued to grow our volumes? Now when generally there is the buoyancy seen in the market so how do we see our market shares moving in the next say two to three or maybe five years?

Rajiv Poddar: As I said our current market share is about 6%. Our vision is to go to 10% and that is what we have been working towards and aim to get to those numbers.

Ankit Kanodia: Thank you.

Moderator: Thank you. The next question is from the line of Suraj Jandani from Compound Everyday Capital Management LLP. Please go ahead.

Suraj Jandani: Good morning Sir. Thanks for the opportunity. So my first question was on the average borrowing cost? You mentioned the average borrowing cost for non convertible debentures but overall if I were to ask the average borrowing bid for which you are availing the borrowing facility?

Rajiv Poddar: So far working capital is about 30 basis points.

Suraj Jandani: Sir this is a followup question on the question asked by some other analyst so the question is why are our raw material cost has been increased by a bit more percentage than other companies? I just wanted to understand that we have seen more raw material inflation comparatively.

Rajiv Poddar: So we are continuously buying inventory so we are stocking up for longer as my colleague mentioned so all those things are also coming to play and it gets calculated and that is why.

Suraj Jandani: Sir, what is the lag time if I may ask for the increased raw material price reflected?

M S Bajaj: Approximately two months.

Suraj Jandani: Perfect. Thank you that will be all.

Moderator: Thank you. The next question is from the line of Siddharth Bera from Nomura Securities Co. Limited. Please go ahead.

Siddharth Bera: Thanks for the opportunity. Sir my question is on the competition side in Europe so now we have to raise prices because of the freight cost so generally we have maintained a sort of price gap with the larger tiers like I think in the range of 10% to 12% so now with the price increases do you think that gap is coming down or you think that we are still very competitive compared to the tier 1 players in Europe?

Rajiv Poddar: No, I think everybody is increasing the price.

Siddharth Bera: But some players peers might have their operations in Europe, so even they are also getting that type of price increase?

Rajiv Poddar: Because they also their raw materials and all are also coming from overseas so it is not very good the raw material aspect will come in for them.

Siddharth Bera: Okay but in a scenario when the demand is so strong so what restricts us from passing on the entire freight cost? Why are we looking at nearly three to six months lagging when passing on the entire cost?

Rajiv Poddar: It is also you are servicing the market where you have to ensure that it is a customer friendly approach because when markets are buoyant you can do anything you want. Still, you also need to take care of these people because they will stick with you when markets are flat or down so it is a give and take kind of scenario so it has been passed on so that even they adjust to it and they can also pass it own further so it is a gradual approach as opposed to being aggressive when the market is up. Yes, you can do it in today’s market scenario you can do it, but if you look at long term business sustainability having more customer care and customer friendly approach is always better.

Siddharth Bera: Understood. I will come back in the queue.

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

Abhishek Jain: Sir, your revenue mix was 23% from India last year and it has come down to something 16% to 17% so how is the outlook ahead for India?

Rajiv Poddar: If you see India has come down to 17%. You are correct. There were two things, which have impacted us in India. One is in the Q1 of this year most of India was hit by the second wave and was under lockdown and the Q2 is the monsoon period there are less agriculture activities which are being done and hence this has impacted us but we foresee this to come back to our normal terms in the next half of this year and going forward we see India as a very, very good opportunity for us to continue to make headwinds here.

Abhishek Jain: Most OEMs are guiding the FY2023 would be good year because of the high base so can we say you will follow the industry?

Rajiv Poddar: We are also looking at the replacement market where the demand seems to be reasonably ok so we are quite buoyant on India for the next couple of years.

Abhishek Jain: Ad and promotion expenses in the first half?

Rajiv Poddar: So our and promotion, you are talking about global I am assuming.

Abhishek Jain: Yes?

Rajiv Poddar: So globally we have taken about Rs.130 Crores to Rs.140 Crores annually and that will continue to be at a level that is my budget annual budget also.

Abhishek Jain: Sir my last question is related to the inventory at the delear level how much is the current inventory?

Rajiv Poddar: They are about one and a half to two months.

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

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

Shashank Kanodia: Good morning Sir. Could you share the 3rd party carbon black shares volume both in terms of volume and value?

Rajiv Poddar: Our volume is approximately 5000 metric tonnes for the quarter.

Shashank Kanodia: Rs.45 odd Crores right it value?

Rajiv Poddar: Sorry for the half year it is about 9000 odd tonnes and in terms of value it is about Rs.88 Crores.

Shashank Kanodia: Sir you have been eluding to you hitting probably one of the peak capacity realization by the end of FY2023 and have 10% kind of global market share so is it then given point that you will have this capex series for a good three to four years since as well? Maybe we have something like Rs.1100 Crores to Rs.1200 Crores each year or we will wait for the market because market demand might not be that linear right so how do you see that?

Rajiv Poddar: At the moment we are doing this ground of capex and then going forward we will see when we need to start doing our next round of capex and we are already working on that.

Shashank Kanodia: Generally what is the difference in payback paid between a Brownfield and Greenfield?

Rajiv Poddar: Sir Brownfield is much lower. It is faster to build it up. The other cost of the land the infrastructure is not there so it is much slower than a Greenfield. Your team is also there so all those things take care of it.

Shashank Kanodia: Right now our payback period is up to four years in a Brownfield right?

Rajiv Poddar: Yes absolutely correct.

Shashank Kanodia: So in the case of Greenfield it will be five years or it will be six years?

Rajiv Poddar: Between five to six years, we cannot put an exact number between five to six years.

Shashank Kanodia: Understood Sir. Thank you so much.

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

Sunil Shah: I am referring to slide six of the presentation We are talking about a capital expenditure of Rs.2250 Crores and in that Rs.2250 Crores we have carbon black expansion for which we will be doing Rs.450 Crores so technically it is Rs.1600 Crores for our tire expansion as well as modernization. Of that Rs.1600 Crores will increase our capacity by 75,000 tonnes is what I understand Roughly if I understand what we have done in this quarter is let us say 75,000 tonnes on which we have generated an EBITDA of Rs.550 Crores so with this capital expenditure of Rs.1600 Crores it results in incremental EBITDA of Rs.550 Crores is my understanding correct on this assuming same price everything remains same? Is it fine?

Rajiv Poddar: Theoretically yes, assuming all the other factors do not change this is absolutely correct.

Sunil Shah: So if some incremental capital expenditure will generate about 30% return on investments for me going forward as well?

Rajiv Poddar: Yes. If you put the maths together, it will come to four years.

Sunil Shah: Four year period, thanks Sir. Thank you very much for this clarification. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities Private Limited. Please go ahead.

Ashutosh Tiwari: Sir, you mentioned that this inventory at dealer level is around one and a half to two months so is this normal inventory that we are seeing this lower higher than normal?

Rajiv Poddar: Slightly lower because of the demand they have also reduced their inventories.

Ashutosh Tiwari: You said that Euro rate is around Rs.89 something going ahead so this is like say for how much period because if I remember correctly in the annual report as of March your hedging levels have come down versus what it was last year so this rate is for what period?

Rajiv Poddar: The three months.

Ashutosh Tiwari: For the next three months you are saying?

Rajiv Poddar: Yes.

Ashutosh Tiwari: On the India sales volumes what would the mix of Agri and OTR?

Rajiv Poddar: On the Euro hedge rate for the forward hedge rate going is 89.70 that is your question.

Ashutosh Tiwari: That is for the next three months you are saying?

Rajiv Poddar: Yes.

Ashutosh Tiwari: In terms of India volumes what would you mix in terms of agri and OTR?

Rajiv Poddar: Roughly about 40% agri and 60% industrial construction OTR.

Ashutosh Tiwari: In India basically while agri was weak OTR construction would have done better?

Rajiv Poddar: Yes but the first half was on lockdown for practically the whole of India in the Q1 and that is why the impact is here.

Ashutosh Tiwari: If you look at 2Q numbers how much growth would have happened in say OTR and mining volume in India any color on those numbers?

Rajiv Poddar: No I do not have the breakup numbers for that as of now.

Ashutosh Tiwari: Sure thank you.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services Limited. Please go ahead.

Jinesh Gandhi: Sir just wanted to clarify the capacity you mentioned carbon black was 50000 tonnes in Q2 what would be the revenue for this?

Rajiv Poddar: Volume of 5000 tones and revenue just under 3% of total revenue.

Jinesh Gandhi: Thanks. That is all from my side. Thank you.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Rajiv Poddar: Thank you to everybody for taking out time and coming to this con call. Till next quarter please take care. Stay safe and be careful. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.