“Balkrishna Industries Limited Q4 FY-21 Results Conference Call”

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MODERATOR:	**MR. VIJAY SARTHY – ANANDRATHI SHARES & STOCK BROKERS**

Moderator: Ladies and gentlemen good day and welcome to the Balkrishna Industries Q4 FY21 Results Call hosted by Anand Rathi Share and Stock Brokers. 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 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 the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vijay Sarthy from AnandRathi. Thank you and over to you sir.

Vijay Sarthy: Thanks Malika. Good morning all of you. On behalf of Anand Rathi, I welcome you all to the Q4 FY21 Conference Call of BKT. Thanking the management for giving us this opportunity. We have the senior management of the company. We will have brief update about current quarter and then we will open the floor for Q&A. Now I hand over the call to Mr. Rajiv Poddar – Joint Managing Director. Thank you sir. Over to you.

Rajiv Poddar: Thank you Vijay. Good morning everyone. I welcome you all to the Q4 FY21 earnings call of Balkrishna Industries Limited. Hope all of you along with your near and dear ones are safe and healthy. Along with me I have Mr. Bajaj – President (Commercial) & CFO and SGA, our Investor Relationship advisor.

Let me begin with performance updates:

The demand continues to be robust in agricultural segments across geographies. In other segments also demand has seen an improvement on the back of increased commodity prices, infrastructure creation and pickup in economic activity. This is reflective in our Q4 sales volume which was our highest ever quarterly sales. We clocked 68,002 metric tons for Q4 FY21 and accordingly for the financial year 2021 we ended with sales volume of 2,27,131 metric tons. During the financial year 2021 the company faced multiple challenges. These were related to raw material prices and its availability. Supply chain issues was also a big challenge especially post the Suez Canal fiasco.

In addition to this, like the world, BKT was already facing unprecedented times due to the ongoing pandemic. However, a resilient BKT has been able to withstand these challenges and emerge stronger by posting its highest ever annual sales volume. For the financial year 2022 we are guiding sales volume between 2,50,000 to 2,65,000 metric tons. We strongly believe that this demand trend is likely to continue in FY22 and in the years to come. However, there may be COVID19 related softness in demand leading us to give a wider range of annual guidance. During the last few years, we have engaged in brand building activities in the international and domestic markets.

We are happy to report that we have seen a good progress which is reflective in the brand recall of BKT as well as our growing market share across the world. During the last year we have done a lot of brand building activities in India and believe we will see increased traction in business as we move ahead. In addition to various brand building activities in India this year, we have been associated as the official partner of various teams in the Cricket 20-20 League.

Further to improve our brand recognition in the rural markets, we are engaged in branding on inter-state buses and hoardings across India. Further we have used radio as a medium to reach large masses and strengthen our brand position. We are confident of the improving performance of our Indian business.

Financial year 2021 has been a challenging time for all of us given the pandemic situation. At BKT in keeping with our motto of 'growing together' we have engaged in a number of CSR activities in our bid to help the society at large. In line with this objective the company has distributed cooked food and food grains in various parts of India to the people affected by lockdown due to COVID19. The company has also distributed PPE kits to various hospitals across India. We will continue to do our bit for the society in these challenging times. Towards green initiative we have planted over 1,00,000 trees at our Bhuj complex. Further, with the usage of by-products from our carbon black plant for generation of power, the coal consumption is reduced drastically leading to a reduction in carbon footprint at Bhuj substantially. We also have existing solar and wind power projects that are partly meeting the electricity needs of our plants.

Let me now give a quick snapshot of our ongoing and new CAPEX program:

Ongoing projects: Ultra large giant tire plant at Bhuj, project for 51-inch and 57-inch ultra large all steel giant radial tire plant of 5,000 metric tons per annum has been completed as we mentioned in Q3 con-call. The tires are undergoing final trial runs.

Greenfield tire plant at Waluj, the Greenfield tire project was progressing as per schedule however due to COVID19 the work was temporarily shut from 25th March 2020 to 20th April 2020. Thereafter, the project work resumed gradually after the lockdown was lifted Considering the current unprecedented and uncertain times the project is expected to be completed by 30th September 2021

New CAPEX over the next 18 months:

CAPEX of up to Rs. 800 crores for tire plants: CAPEX spends has commenced towards debottlenecking and Brownfield expansion along with additional or balancing and auxiliary units for Bhuj. The expansion will add a capacity of 50,000 metric tons per annum. This CAPEX is envisaged to be completed during second half of financial year 2023. The completion of the CAPEX will result in our total achievable tire capacity to reach 3,35,000 metric tons per annum. The payback period of this CAPEX is envisaged to be around 4 years.

CAPEX up to Rs. 650 crores for carbon black and captive power plants. In the second phase we are increasing carbon black achievable capacity from our current achievable capacity of 1,15,000 metric tons per annum to 2,00,000 metric tons per annum which includes 30,000 metric tons per annum of high value advanced carbon materials and power plants of 20MW capacity. In addition to meeting our internal demand on enhanced tire capacity leading to better control over supply chain and improving the quality of our tires; the plant will also allow us to generate power for the tire plant and its use. This will also lead to a reduction in the usage of coal for power generation at the Bhuj plant. This is our environment friendly approach to reduce carbon footprint at this juncture. The total CAPEX spend is envisaged at Rs. 650 crores and will be completed by the first half of financial year 2023. We expect a payback of around 5 to 6 years on this investment.

CAPEX up to Rs. 450 crores for modernization, automation and technology upgradation of equipments and material handling. The CAPEX will be done at the existing facility at Bhuj and particularly at Rajasthan where we have established two of our plants in 2001 and 2006. There will be no capacity enhancement but improvement in quality and efficiency. This CAPEX will be completed by first half of financial year 2023. The CAPEX will improve our margin profile and accordingly we expect a payback of around 5 years on this investment.

We envisage the entire new CAPEX of Rs. 1,900 crores to be funded by internal accruals and some debt if needed in the financial year 2022 and 2023.

With this I now move on the operational highlights:

Our sales volume for the quarter was 68,002 metric tons a growth of 17% year-on-year. For the financial year 2021 the sales volume to that 2,27,131 metric tons, a growth of 13% year-on-year.

Our standalone revenue for the quarter stood at Rs. 1,750 crores which includes realized gain on foreign exchange pertaining to sale of Rs. 4 crores. For financial year 2021 the revenue stood at Rs. 5,740 crores which includes the foreign exchange loss pertaining to sales of Rs. 18 crores.

For financial year ‘21 50% of our sales came from Europe, 23% from India, 15% from America and balance from the rest of the world. In terms of channel contribution, 70% was contributed from replacement while OEM contributed to 26% with the balance coming from off-take segments. In terms of category, agricultural segment contributed to 64%, OTR contributed to 32% and the balance came from other segments.

The standalone EBITDA for the quarter was at Rs. 558 crores with a margin of 31.9%. While for the financial year 2021 the EBITDA stood at Rs. 1,810 crores with a margin of 31.5%.

Other income for the quarter stood at Rs. 20 crores while unrealized gain stood at Rs. 23 crores. For financial year 2021 other income stood at Rs. 119 crores while unrealized gain stood at Rs. 18 crores.

Coming to the next FOREX item for the quarter, we incurred a net FOREX gain of Rs. 38 crores which includes realized gain of Rs. 16 crores and unrealized gain of Rs. 23 crores.

For financial year 2021 we incurred a net FOREX gain of Rs. 42 crores which includes realized gain of Rs. 24 crores and unrealized gain of Rs. 18 crores.

Profit after tax for the quarter stood at Rs. 372 crores with a margin of 21.3% while for the financial year it stood at Rs. 1,155 crores with a margin of 20.1%.

Our gross debt stood at Rs. 893 crores, our cash and cash equivalents were at Rs. 1,475 crores implying a net cash position.

For the financial year 2021 we incurred a total CAPEX of Rs. 911 crores.

For Q4 2021 the euro hedge rate was at Rs. 87.42 while for the financial year 2021 the hedge rate was at 84.93. Forward hedge rate currently stands at around Rs. 89.

The Board of Directors have recommended a final dividend of Rs. 5 per equity share subject to the shareholder approval at the ensuing AGM in addition to the Rs. 12 per equity shares it paid for the nine-months for the financial year 2021. The total dividend paid will be Rs. 17 per equity share, that is 850% of its face value. This will result in a dividend pay-out of approximately 28% for the financial year 2021.

As mentioned, we remain optimistic for financial year '22 and accordingly have guided for 2,50,000 to 2,65,000 metrics tons of sales volume in the financial year. We are confident of improving the brand equity of BKT Tires in the end market. Our long-term margin guidance remains intact between 28% to 30%.

With this I conclude my opening remarks and leave the floor open for Q&A. Thank you.

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.

Ashutosh Tiwari: What was the RM increase in the quarter versus Q3 and what we expect in Q1 going ahead?

Rajiv Poddar: The RM impact will come in this quarter. It is already to the extent of around 2% to 3% and going forward would be another 2% to 3%. But despite that we would assume that our earnings would be intact between 28% to 30% as we have already said.

Ashutosh Tiwari: Any price increase you have taken recently like say April or May?

Rajiv Poddar: We have taken price increase in January and recently in April. So, that is also being passed on to the customers.

Ashutosh Tiwari: What is the quantum for in April price increase?

Rajiv Poddar: Average the total price increase we have taken so far would be around 3% to 4%.

Ashutosh Tiwari: 3% to 4%?

Rajiv Poddar: Total between January and April yes.

Ashutosh Tiwari: On the April around 2%?

Rajiv Poddar: Approximately, yes.

Ashutosh Tiwari: Secondly, I missed on the euro INR realize rate condition. What was it for the fourth quarter and what we expect going ahead?

Rajiv Poddar: As I said for the fourth quarter was at 87.42 and going ahead currently is around Rs. 89.

Ashutosh Tiwari: 89 we expect in the next year. Lastly on the Aurangabad plant CAPEX that we are doing, the Greenfield plant will come up by September you said but if the demand surprises can we also continue the old plant after the new plant commences or that's not possible?

Rajiv Poddar: We are working on that. We are trying to see what can be done but we don't have an answer right now. We are working on that.

Moderator: The next question is from the line of Joseph George from IIFL.

Joseph George: The first one is your stated annual capacities 2,85,000 tons which translates to slightly more than 70,000 tons per quarter and in terms of quarterly run rate this quarter you have already hit a 68k number. Before the next leg of capacity expansion is commissioned which is 50,000 tons, do you think you will be able to do some debottlenecking or something of that sort in order to increase the quarterly run rate from the stated number of 70,000?

Rajiv Poddar: So, as you have already said we have started some debottlenecking so that should also lead us with some increase in capacity, also the new project has already commenced. With that we should be able to start getting these numbers earlier but as we said our guidance for this year is 2,50,000 to 2,65,000 tons. We have some gap between that, and our capacity was achievable and by the time we hit that number our new projects should come in.

Joseph George: The second question is you have been consistently reporting margins of 31%-32%-33% and when you look ahead with demand being strong and with possibility of better Euro realization next year compared to FY21 there is a possibility that the margins can continue to remain strong. Why are you downplaying or being so conservative with respect to your margin guidance of 28% to 30%?

Rajiv Poddar: Basically 28% to 30% is something we have always maintained. That would be our guidance for the long-term. The raw material prices are going up, other costs are also going up so keeping that in mind despite all these increases we believe that in the long-term the prices should remain in this range of 28% to 30%. It is not that we have been conservative, but few costs are also increasing.

Joseph George: What would be the specific CAPEX guidance for FY22?

Rajiv Poddar: Between 800 and 850 crores.

Joseph George: This includes maintenance as well?

Rajiv Poddar: Excluding

Moderator: The next question is from the line from Siddhartha Bera from Nomura.

Siddhartha Bera: These 800 to 850 crores CAPEX you talked about for FY22 of the total CAPEX of about 1,900 crores so you mean to say that the bulk of the CAPEX will happen only next year? And in case demands surprises then I mean how are we planning to manage the capacity?

Rajiv Poddar: No basically it is spread over 2 years you start ordering some equipment, by the time they come may get installed from the civil work and it is a spread over 2 years. It's not like we do half now and half later.

Siddhartha Bera: Bulk of this CAPEX will be spent in which areas if you can just indicate that?

Rajiv Poddar: It is everything so equipment, bulk will be of course equipment and then some of it would also remain civil.

Siddhartha Bera: Which project if you can say that?

Rajiv Poddar: The tire project.

Siddhartha Bera: I mean carbon black also there is a Rs. 650 crores plan. You have a radial plant expansion also tech upgradation also. So, amongst these which one will have the majority part?

Rajiv Poddar: Out of this whole project the major CAPEX would be done on the tire plant and on the upgrading and automation of the existing tire plant. CAPEX for the carbon plant and the power plant would come a little later but some part of it would come this year but the bulk of that would come in the next year.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi: First question from my side is with respect to the US market considering that is one of our expected growth drivers. How do you see the size of the opportunity and split between Agri and OTR and how are we positioned currently and what is our aspiration for that market?

Rajiv Poddar: As we have always mentioned that America's overall is a growth driver for us and you can see that we are steadily making some progress in our sales, so opportunity is huge. We are constantly looking at growing in those markets.

Jinesh Gandhi: Any number which you can address attached to the US market in terms of size and anything which you can share on that front?

Rajiv Poddar: I can share with you that Americas put together contributes to about 15% of our sales. So, what used to be about 12% of the lower number is now about 15 of the higher number. You can see that the growth that we are getting into it.

Jinesh Gandhi: Secondly with respect to the Bhuj plant expansion, suppose this 50,000 tons expansion which we are doing; is there scope to further expand capacity from there?

Rajiv Poddar: Yes, there is some capacity available, land is available for us.

Jinesh Gandhi: That can add another a 100,000 tons there?

Rajiv Poddar: We will have to do the working. Once we get on the drawing board first month after this expansion we can give you the exact numbers, but yes we have land available, and we will announce once we are able to plan the whole thing.

Jinesh Gandhi: Lastly on the OTR segment again that is another area for growth for us. So, what is the roadmap there? Will we need to substantially expand our product portfolio and distribution network to attain the growth which you are looking for in OTR segment?

Rajiv Poddar: OTR segment as you can see, we have constantly been completing the product line and if you can see we have just completed the set up of 51 to 57 inch ultra large giant tires. The tires for this are under trial runs at our plants and then we will sell it out. So, once we do this, we will have the entire product basket. In the meantime, we have already set up our distribution channel, we have strengthened that so once the entire basket is there, we are quite confident in making good progress in this also. If you can see in the numbers also roughly about 32% has come from OTR. So, where we used to be and where we have reached in OTR is quite a substantial jump.

Jinesh Gandhi: We do expect broadly 50-50 split in say next 3 to 5 years between OTR and agri.

Rajiv Poddar: Somewhere close to that.

Moderator: The next question is from the line of Abhishek Jain from Dolat Capital.

Abhishek Jain: Quarterly run rate from other expenses has gone up to the 400 crores range. Will it be on continuous basis or is there any one-off in this quarter?

Rajiv Poddar: The main impact on other expenses has been basically on the logistics cost.

Abhishek Jain: Will it come down in the coming quarter or it will be on a continuous basis?

Rajiv Poddar: It would be similar. We don't expect a drop in the immediate next quarter, the way logistic costs are going up, but we see it easing towards that may be in second half.

Abhishek Jain: Demand of off-highway tire has gone up very strongly from some metal and mining producing countries like Australia, Brazil and South Africa. How do you see potential and opportunity of these markets for the company?

Rajiv Poddar: So, these are markets where we have strong presence, and we are making good gains in those markets as well in the OTR and mining sector. That is reflecting in the contribution of the OTR sector to the overall product portfolio of BKT.

Abhishek Jain: What is your growth outlook of OTR tires that you are expanding your business in these countries? So, we are expecting that go to bit at higher side in FY22-23. So, can you provide some guidance?

Rajiv Poddar: What we are suggesting that in the next 4 to 5 years our OTR contribution should be around 45% to 50% of the product basket.

Abhishek Jain: Is there any margin differences in OTR and agriculture tires?

Rajiv Poddar: Its Similar.

Abhishek Jain: My last question is from your key markets like in last couple of quarters demand from the Germany, USA, France and Italy was quite strong which contributed more than 40% of your export. How do you see growth in FY22 on a high base in these country?

Rajiv Poddar: As we have maintained that we see a fairly strong demand in the financial year which I mentioned in my speech also and with that we are looking at the guidance of 2,50,000 to 2,65,000 metric ton per annum for this financial year.

Moderator: The next question is from the line of Viraj Kacharia from Securities Investment Manager.

Viraj Kacharia: I had a couple of questions; one is on the India market. You said that you are looking have to increase investment in brand building and overall activity. If you look at a FY21 as a whole, what kind of growth we see in India business and how does that compare to the industry and also to add any colour you can give into the market share in OEM and replacement?

Rajiv Poddar: India for the last financial has been a strong sector for, if you can see that India which was in lower digit few years back, today contributing to 23%. So, it becomes our second strongest market after Europe, and we have gone. The Indian sale has grown roughly about 29% year-on-year in the last financial year, that is the kind of work we are doing. In terms of market share in India, will be close to about 4% to 5% for the market. Overall means replacement and OEM put together is roughly about 4% to 5%.

Viraj Kacharia: Is it largely skewed in replacement or there is still some headways made OEM's now also?. Is there any gap in terms of market presence or in terms of the product range we have, or we are fully covered in terms of range and in terms of distribution as well?

Rajiv Poddar: We are fully covered in terms of range, both OEM and replacement we are making good headway and are present with most of the major OEM's in India. All these branding activities are helping brand recall. So, that is helping push in the OEM's. Its overall basket is growing for us in India.

Viraj Kacharia: Who are we gaining market share from, any color you can share in terms of industry dynamics who are we gaining share from? And given that we are more backward integrated now, would it be open to using price as a mean to accelerate the market share gains especially in the replacement market?

Rajiv Poddar: We have been overall gaining market share from all the competitors, it is difficult to point one or the other but overall, we are gaining market share.

Moderator: The next question is from the line of Nishit Jalan from Axis Capital.

Nishit Jalan: My question was on America's, obviously you have done a good growth in this quarter but if I look at this year as a whole or maybe last few years that is a market I think where we still have a lot of potential. If you can give us some color as to what is the market size in America versus Europe because for us America is only 30% of Europe volumes. How is the market size over there and what have we done in terms of distribution reach if we can get some numbers, number of distributors or number of people on the ground to kind of increase your product accessibility to mining companies and all some color on the American markets in particular because I think that is one market which will drive your growth in the next 3 to 5 years?

Rajiv Poddar: So, if you look at firstly over the last few years what we have been doing in America we have developed some special products mainly for the American market and that has now come into play. We started our brand building activity from America which is now reflecting in our good brand recall, and we have covered our distribution network for both Agri as well as OTR business and those should all start kicking in. As far as distribution is concerned, we have covered the entire North America. In terms of market size, it will be as big as Europe put together. Yeah, that is where we see a good potential to grow.

Nishit Jalan: This distribution expansion in America is it a more recent phenomenon because if you have already expanded distribution if you have already launched more country specific products then why is it not reflecting in volume growth? Because if I look at this year also America is the only market where volumes are flat on a YOY basis and last year also volume declined over there. So, just wanted to see what needs to change or what will be the key catalyst that we start driving the volume performance in America markets?

Rajiv Poddar: So, the added distribution is now coming into play. The product is now what was launched has been tried and tested so that is now working and with that put together is growing. The results will start coming in. Also, if you see in America overall, they had a very rough year with drought and other things. Also, the COVID had a big impact over there in the first few months so that all had an impact on our businesses there but now you should see some movement coming from America.

Nishit Jalan: Just one follow-up, I forgot when you mentioned the impact of cost increase in this quarter and what we should be expecting in the coming quarters if you can repeat those numbers?

Rajiv Poddar: RM cost I believe should be around 5% to 6%.

Moderator: The next question is from the line of Nishant Vass from ICICI Securities.

Nishant Vass: My first question is on your OEM mix in terms of revenue as you have closed the end of the year, we have seen OEM pick up traction. What is your sense in terms of the demand from an OEM side, is that looking up a customer orders for next year looking stronger? What is your view on that?

Rajiv Poddar: Yes. Well, I think the demand overall both OEM as well as replacement is looking strong, and both has been at a good position now.

Nishant Vass: Is this OEM pickup universal as an Agri and OTR both customers are giving you a stronger on guidances?

Rajiv Poddar: Yes.

Nishant Vass: My second question is after with follow back is on the large OTR plant that has started so how obviously you will close to commissioning. What are your target customers, how can you give some sense about what is your observation from the market and how you are looking at from a future expansion of that space? What is your strategy around that?

Rajiv Poddar: Basically, the tires are now under trial. Once they get done, they will be sent to the market. So, on the OEM side of course there is some of the major players who would need these tires for the equipment. We have already been in touch with them, and we are working closely with them to get the tire sector there. From the replacement side you have plays across the world who need these kinds of tires, a big mining guy who contacted us, so we are touch with those contracting agencies who run these mines on behalf of the Mine owners. We are in touch with them for using a Testing our tire, so the work is already started with that.

Nishant Vass: If I had to ask you from a lead time basis, obviously because this is a new category of tires and which is generally in short supply globally, so what is the lead time of experience and feedback? So, I am just coming from a side which obviously the capacity is not really large. Suppose customers want you to manufacture more. What is your strategic plan for expansion on these types of tires?

Rajiv Poddar: The lead time from segment to going you know getting the feedback could between six to nine months.

Nishant Vass: I was saying so basically in a 12 month cycle you will have the feedback in case you succeed you will then potentially look at expansion. That is my understanding is correct?

Rajiv Poddar: Yes.

Moderator: The next question is from the line of Arvind Sharma from Citi Bank.

Arvind Sharma: Two questions from my side, first of all can you please share some more light on the raw material costs and the pricing environment, I mean you said about the first quarter but going ahead how do you see raw material panning out, both in terms of natural rubber and crude related raw materials and commensurately how is the pricing environment?

M.S. Bajaj: So, raw material prices currently we see that 4% to 5% increase we will be there in the next quarter. The current rates of natural rubber and synthetic rubber is around Rs. 113 per kg. which will be in the next quarter will around Rs. 145 per kg. and as far as availability there, availability has no issue but logistic is an issue for many of the raw material.

Arvind Sharma: How's the pricing environment. I mean if you have 4% to 5% raw material increase, are you able to fully pass it onto the customers, both in India and of course across Europe and US?

Rajiv Poddar: So, some of it we will be passing on to the customers. As you can see what we done one round of increase January, one round of increase in April and we are working closely with our customers to see what we can do in the near future to take care of these increases.

Arvind Sharma: A second question would be I don't know if you can share but you being as sharing the volume numbers is it possible to share the revenue break up as well between the geographies?

Rajiv Poddar: No, I don't have that.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: My question was on the demand side. So, the demand growth that you have seen in volume in this quarter and also your guidance for the next financial year, just a clarification that this is you were seeing this demand coming from the existing distribution network or this is based on the new distributors that are added to our network or are getting added to one we are going forward?

Rajiv Poddar: So, it is a mix of both some of them I mean the old ones also showing strong demand and new one is add in, so it is a mix of both.

Lokesh Manik: Any approximate numbers in terms of weightage if you could?

Rajiv Poddar: The older ones have a higher share because they are bulk of it, new ones would be a very small percentage.

Lokesh Manik: The incremental growth that you are expecting from, so how much weightage would you give to the older ones. Let us say from 200 to 260 so 60 incremental, how much you are seeing expecting from the newer guys and from the older distributors?

Rajiv Poddar: Very difficult to put a number now, we have already given you the consolidated number that is between 250 to 265, is where we will end up. It is difficult to put a number that the new one will get this much today because the tires need to go test, the old guys approved and they are working and they are also going. So, difficult to get that break up right now.

Lokesh Manik: Your confidence is emanating from the expansion in the distribution network?

Rajiv Poddar: Yes, of course that will add value but also to the demand is existing so there is a lot of momentum in the overall marketplace at the moment.

Lokesh Manik: So, mainly it is coming from the existing distributors?

Rajiv Poddar: Yes, the new guys are just to fill the market gap so that the distribution channel is complete. It is not like they think to the same value same region or something.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram: My question is on the balance-sheet side, so if you see inventory levels on the balance sheet has substantially increased to 900 crores plus. Is it that we are keeping a lot of raw material inventory to see the gain stuff sharp inflation that we are seeing or is it anything got to do with the end of the year and being unable to ship out the products on time?. Secondly on the payables side also we have seen a substantial increase there any change in the terms of trade there on the payable front?

Rajiv Poddar: So, major things coming on the enhanced raw material procurement and capacity numbers also going up. So, it is on those basis and that is why the numbers are coming currently.

Shyam Sundar Sriram: On the payables front also this the same reason for the raw material costs?

Rajiv Poddar: Yes.

Shyam Sundar Sriram: So, how much would be RM at end up end of the year what we have inventory that we hold now?

Rajiv Poddar: I don't know the exact break up.

M.S. Bajaj: Approximately 38 to 40 days.

Moderator: The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers.

Sunil Shah: To clearly understand that the demand outlook is extremely positive from somewhat has been indicated. What is on the supply side, are our competitors and peers also in expansions spree, how we will supply side shaping also, could give us some more understanding on that as well?

Rajiv Poddar: As we said supply side on raw material front is a challenge for us also, but we are making sure and we are covering that. If with already with carbon black, we are self-sufficient.

Sunil Shah: Sorry to interrupt, very sorry to interrupt. I am not talking on the raw material supply I am talking about industry supply. So, overall tire and our peers are they also expanding and are willing to supply more tires in the industry? So, competitor supply that is what I am trying to understand?

Rajiv Poddar: We can't really mention about what the competitors are doing but we are doing what is needed and we are taking care of the enhanced momentum which there.

Sunil Shah: One more point was we are looking at eventually to reach about 10% global market share over a period of time. Where are we on that journey right now?

Rajiv Poddar: So, we are close to about 5%.

Sunil Shah: So, we are at 6% we are almost there only, so the industry is growing at is actually not technically that more market share been that happening for us

Rajiv Poddar: Yes.

Moderator: The next question is from the line of Arjun Khanna from Kotak.

Arjun Khanna: My first question is for a FY21 how much would we have spent in advertising and promotion?

Rajiv Poddar: As we have been saying that normally we spent closed to 100 crores for the same but with the enhancement in sales we are looking and may go up to 120 to 125 crores in the years coming.

Arjun Khanna: And secondly obviously how do we try and understand the benefits of this? So, are there any metrics qualitative or quantitative that the management looks at to understand the benefits of this spending?

Rajiv Poddar: Yes, so basically, we continuously do market research and keep checking whether the brand recall that being created and we have been getting those reports from professional agencies as one of the indicators, to give us when they do market research before and after. Also, if you see like if you in India per se the last one year we have heard a 29% growth year-on-year and this could be a direct impact of the branding. Because people are now coming up and asking for our tires. They are more aware of the name BKT and they were not a couple of years back.

Arjun Khanna: This is obviously very positive. Just want to understand from your end in terms of pricing, so at what point in time so if you look at the European and US markets historically, we have been at a discount in terms of MRP level. I am not talking at the dealer level but at the MRP level same with the global number 1, number 2 players. Over a period of time that discount obviously has narrowed. How do you see the prognosis over the next 2 to 3 years and is this promotion and branding activity possible to reduce that further?

Rajiv Poddar: From where we were to where we have reached, the gap is continuing to narrow down and with certain brand building activities helps within the next few years which will continue to narrow but at a point we will come in and we will plateau, we won't be able to meet their level. We will yet maintain our gap of 12% to 15% to them. That is, we are now trying to reach to that level and then we will take it from there, but we can see up to that level with the brand building activities, we should go and then we will plan accordingly.

Arjun Khanna: And where are we currently? So, you mentioned 12% to 15% is the end goal. Where are we in the journey?

Rajiv Poddar: Around 15-20%.

Arjun Khanna: Secondly the next question is in terms of the pricing because of the currency depreciation has there been any pressure from the OEMs to pass that on to them in the export market?

Rajiv Poddar: No, not yet.

Arjun Khanna: In terms of coverage till what period are we have taken forward coverage for the next year?

Rajiv Poddar: You're talking about the FOREX, Right? So, that is a continuous basis, so we are doing on a daily basis. So, it is difficult to give what level we forward until there, but we are doing it on a regular basis and average rate currently for FY22 is around 89 and broadly if you look at it between 5 to 6 months its covered.

Arjun Khanna: The reason I am asking this is because we are looking at an increase in production or sale from 220 to maybe in the range of 250 to 265. So, in a sense do we see that being front ended or possibly back ended for the year?

M.S. Bajaj: Yes, we are taking on the basis of the guidance for future cover.

Arjun Khanna: And obviously, this has seasonality to this, so do we see a higher run rate possibly in the second half of the year versus the first half or possibly we could see more even distribution during the year in terms of sales?

Rajiv Poddar: At this stage we are seeing that we will maintain the similar run rate to what we have and that's why we are giving a wider guidance because there is yet some uncertainty in the marketplace regarding COVID, where it stays up where it doesn't, so we are giving a similar number that's why the range is in wider than what we have normally done.

Arjun Khanna: Just the final question in terms of logistics cost you did bring about that we are at a heightened level right now. If one had to look at it in terms of absolute cost compared to say what were before COVID situation or before people did see issues with freight. How much higher would that be on an average?

Rajiv Poddar: Well, it would be higher by above 3% to 4%.

Moderator: The next question is from the line of Navin Matta from Mahindra Manulife.

Navin Matta: Just one clarification on the other expenses, so we are associated with IPL, so I just wanted to know whether our advertising and promotion spends has any lumpiness in a quarter on a quarter-to-quarter basis. Is it our operating expense higher in this quarter also because of that?

Rajiv Poddar: The payment term that we have in our agreement is there across the year, so we don't see that.

Navin Matta: You mentioned that the other thing is on the raw material side you mentioned the inflation is 5% to 6% and we have already taken a 2% price hike in April. So, broadly it should cover for the gross margins should not take a major hit is that a right understanding?

Rajiv Poddar: As we mentioned that the logistics cost also going up for the time being, so we have to see that where it goes up to. That is why we have saying that on average our 28% and 30% EBITDA margin for the long-term is sustainable.

Moderator: Thank you. Ladies and gentlemen this was the last question for today; I would now like to hand the conference over to Mr. Rajiv Poddar for closing comments.

Rajiv Poddar: We thank everybody for their time and thank you once again. We hope everybody continues to remain safe during this unprecedented second wave, please take care. Thank you.

Moderator: Thank you. On behalf of Anand Rathi Share and Stock Brokers that concludes this conference. Thank you for joining us and you may now disconnect your lines.