“Balkrishna Industries Limited Q2 FY-20 Earnings Conference Call”

November 15, 2019

MANAGEMENT: MR. RAJIV PODDAR – JOINT MANAGING DIRECTOR, BALKRISHNA INDUSTRIES LIMITED.
MR. B. K BANSAL – DIRECTOR (FINANCE), BALKRISHNA INDUSTRIES LIMITED.

MODERATORS: MR. HITESH GOEL – KOTAK SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Balkrishna Industries 2Q FY20 Earnings Conference Call hosted by Kotak 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 in 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 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. Hitesh Goel from Kotak Securities. Thank you and over to you sir.

Hitesh Goel: Thanks Aman. I welcome all of you for the second quarter FY20 Earnings Conference Call of Balkrishna Industries. I also welcome the management on the call. Today we have with us Mr. Rajiv Poddar – Joint Managing Director and Mr. B. K. Bansal – Director (Finance) of Balkrishna Industries. I would like to hand over the call to Mr. B. K. Bansal for opening remarks and then we can start with the Q&A.

B. K. Bansal: Thank you Hitesh. Good afternoon everyone. I also welcome you all to the Q2 FY20 Earning Call of our company. I am joined by Mr. Rajiv Poddar and Shogun Jain from SGA, our Investment Advisors Team. First, I would talk about performance.

The market continues to remain challenging due to unfavorable environmental condition in Europe and unfavorable macro-economic situation across the globe. At BKT we continue to focus on growing our reach across markets and across segments, particularly in the non-agriculture market, where we have a small market share. We are witnessing encouraging response in Indian market and considering this we remain optimistic to outperform the industry.

I will now talk about our CAPEX program. So the CAPEX for phase one of Carbon Black plant with a capacity of 60,000 metric tons has already been commercialized during last quarter. The product quality has been well accepted, we expect full benefit of the phase one to acquire in H2 FY20, the second phase of 80,000 metric tons is expected to be commissioned by FY21. All other CAPEX projects in India are progressing as per schedule, we expect them to start contributing from FY22 onwards.

As discussed in the previous quarter, we continue to invest in branding initiatives across geographies, to strengthen the BKT brand. We strongly believe that this initiative of brand building is unnecessary to reach the next level of growth and gain market share across geographies.

With this, I'll now move on to performance highlights:

Our sales volume for the quarter was 45,169 metric tons, reflecting a de-growth of 14% year-on-year. For H1 FY20 the sales volume was 96,473 metric tons reflecting a de-growth of 12% Y-o-Y. Our standalone revenue for the quarter stood at Rs.1,107 crore, this includes realized gain on foreign exchange pertaining to sales of Rs.36 crore. For H1 FY20 the standalone revenue for the quarter stood at Rs.2,325 crore which includes realized gain on foreign exchange pertaining to sales of Rs.60 crore.

On the EBITDA front for the presentation purposes we have shown the interest income from investment and unrealized gain loss below the EBITDA while realized gain have been shown above EBITDA. Accordingly, the standalone EBITDA for the quarter was at Rs.309 crore with a margin of 27.9%. The standalone EBITDA for H1 FY20 was at Rs.604 crore with a margin of around 26%. Other income for the quarter stood at Rs.81 crore which includes net gain on foreign exchange to the tune of Rs.55 crore and other income from investment of Rs.26 crore. For H1 FY20 other income stood at Rs.152 crore which includes net gain on foreign exchange to the tune of Rs.97 crore and other income from investment of Rs.55 crore.

Coming to the net FOREX items:

For the quarter we incurred a net FOREX gain of Rs.55 crore which includes realized gain of Rs.41 crore and unrealized gain of Rs.14 crore. For H1FY20 we incurred a net FOREX gain of Rs.97 crore, which includes realized gain of Rs.69 crore and unrealized gain of Rs.28 crore. Profit after tax stood for the quarter was recorded at Rs.291 crore while for H1 FY20 it was recorded at 467 crore. The Q2 PAT was higher on account of deferred tax credit. Our tax rate going forward will be 22% plus surcharge amounting to 25.17%. We are a zero long-term debt company. Our cash and cash equivalence were Rs.1207 crore implying net cash position even on short-term basis.

The Board of Directors have declared a second interim dividend of Rs.2 per share in addition to Rs.2 per share paid during first quarter FY20.

At the start of the year, we had guided for 3 to 5% of volume growth for the current financial year. The first half of the year has been challenging and our volume on half yearly basis have seen 12% de-growth from 109,093 metric tons in H1 FY19 to 96,473 metric tons in H1 FY20. We believe the second half should be better however, it would be difficult to recover fully the loss ground of first half based on the current run rate. Therefore, we expect to end the current year with minor de-growth. That is all from my side and I now leave the floor open for the question answer. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati: Just trying to understand what really changed over the quarter what segments surprised you in terms of volume demand?

B. K. Bansal: I think this time it was across the segments. So apart from agriculture, the downtrend was seen in the OTR segment as well.

Punit Gulati: And within the regions?

B. K. Bansal: And within region also it was across geographies.

Punit Gulati: Okay. And this wasn't anticipated because I presume we will have some sense of what quarter is going to be before the start of the quarter. So, basically whatever your partner's ordered, they didn't off taken as much or it's something else happened?

B. K. Bansal: To that extent the orders were also placed lower only.

Punit Gulati: Okay. Secondly, if you can give some color on how is the CAPEX plan getting along and in what quarter of FY21 would you expect to commission various capacities?

B. K. Bansal: The Carbon Black project is expected to commercialize during first half of next financial year. The CAPEX on Bhuj is also expected during the next financial year.

Punit Gulati: Will be first half or second half?

B. K. Bansal: CAPEX should be completed before end of next financial year.

Punit Gulati: Okay. So by next year financial year all your CAPEX will be done then?

B. K. Bansal: Yes.

Punit Gulati: How is the Carbon Black first facility behaving is it giving you the expected benefits?

B. K. Bansal: Yes.

Punit Gulati: Both in terms of margins and efficiencies?

B. K. Bansal: Margin and quality wise it has been encouraging and we are getting the expected return from it.

Punit Gulati: Okay. If I look at the numbers it looks like you took some minor price increases is that understanding correct?

B. K. Bansal: Sorry?

Punit Gulati: It looks from numbers it appears that sequentially you took some price increasing, is that understanding correct?

B. K. Bansal: No, we have not taken any price increase, this increase in ASP on account of better currency realization during the quarter.

Punit Gulati: So, what was the realization?

B. K. Bansal: So, in terms of Euro it was around Rs.80 as against 78,79 and in terms of dollars, it was around 72 as against 71.

Punit Gulati: I thought last quarter was also 80 only?

B. K. Bansal: No.

Punit Gulati: Last was 78?

B. K. Bansal: Yes.

Punit Gulati: Okay and 71 for dollar?

B. K. Bansal: Yes.

Punit Gulati: Okay, so that's the difference. So from margin front also, it's pretty much similar to what you saw in 1Q?

B. K. Bansal: No, from Q1 margin is better.

Punit Gulati: Yes, correct slightly better yes, 10% odd better, that's fine. Great.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: The first question would be on your raw material prices, as price per ton has reduced quite a lot so anything that explains that?

B. K. Bansal: See it includes the benefit on account of Carbon Black also and otherwise the raw material prices have been on declining mode. So, that is why this kind of benefit has been reflected during this quarter.

Arvind Sharma: It is almost an 11% kind of benefit so was just wondering have rubber prices fallen that much or is it?

B. K. Bansal: It is not only rubber even the crude derivatives have also fallen off and as I said there is a benefit of Carbon Black also.

Arvind Sharma: And do you expect in the EBITDA in terms of price per ton to continue for this year?

B. K. Bansal: Difficult to predict because it all depends on the raw material prices but most of the raw material reeducation have already been priced in.

Arvind Sharma: Okay, but this gross margin, coming to the gross margin, this gross margin should sustain unless there is some big increase in cost. Is that sense correct?

B. K. Bansal: Yes, broadly you can say, but it is subject to raw material prices remaining at the same level, currency also remaining at the same level.

Arvind Sharma: Right. Sir just one more thing, will it be possible to share the percentage of revenue from various geographies and the volume if possible, if not volume at least the revenues?

B. K. Bansal: Not revenue but I can give you geography wise mix in terms of percentage. So, for Q2 European is 47%, America is 19%, India is 20% and balance is rest of the world.

Arvind Sharma: This is the volume breakup?

B. K. Bansal: Yes, volume.

Moderator: Thank you. The next question is from the line of Pravin Yeolaker from CGS-CIMB. Please go ahead.

Pravin Yeolaker: Just couple of questions. First, as you have indicated, that India business has seen increasing performance. So could you just elaborate on that, how's your progress in the India OTR segment and especially in the mining tire?

Rajiv Poddar: So, overall India seems good results for us as you mentioned and in the mining sector also we are making good headway. The tires are performing well, and being accepted. So, there's a good recall there. So we are quite positive and hopeful on these in this area.

Pravin Yeolaker: And sir would you just help us to understand what will be your target two to three years going ahead, in terms of mix of geography?

B. K. Bansal: So India is currently 20% going forward, two, three years down the line it can increase to around 24, 25% and all geographies are increasing. So, broadly the mix would be almost similar, there will not be any significant shift in next two to three years' time frame.

Pravin Yeolaker: And last question, on India business only. For the current quarter, for the first half of FY20 have we seen any market share increase in the farm tire segment or in the overall off-highway tyre segment ?

Rajiv Poddar: No, there is nothing significant to report, but yes we are making headway and our numbers are growing, market at the moment is huge and we are too small to really show significant gain in market.

Pravin Yeolaker: And sir this mixe what you said just 20 to 25%. So this will be driven by largely due to OTR segment?

B. K. Bansal: OTR as well as agriculture, farm tire.

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

Siddharth Bera: Sir the commodity side, we have already two month in the quarter. So just wanted your thoughts on how are you seeing the commodity prices, are they similar to what we have realized in Q2 or have they actually eased upside? What is the feedback?

Rajiv Poddar: So the prices, we are expecting it to be at these level only we are not seeing much increase. So it should be stable.

Siddharth Bera: Okay. And therefore if you can guide us on our hedge book and what is the hedge rates we have taken for the medium term?

B. K. Bansal: It is around the 79 to Rs.80 for Euro

Siddharth Bera: 79 to Rs.80for euro, okay. Sir dollars I would believe has a natural hedge?

B. K. Bansal: Yes, so it is generally converted at the spot rate.

Siddharth Bera: Okay and how much of our exposure is hedged, at least what is the hedge book if you can give it to me?

B. K. Bansal: For next one year requirement around 72 to 75%.

Siddharth Bera: 72 to 75% is hedged at around Rs.80, 80 Euro.

B. K. Bansal: Yes, in terms of Euro yes.

Siddharth Bera: Okay, got it. And sir lastly on the CAPEX side we have seen already close to 400 crore of CAPEX being done in the first off, so you had indicated a 600 crore odd CAPEX for this year. So, if you can guide us the total number you are planning for this year and next year and the breakup?

B. K. Bansal: So, last year we spent around the Rs. 700 crore this year I said it would be again Rs. 600 to Rs. 700 crore and remaining Rs. 600 crore will be spent in the next financial year. So, first half we have spent around Rs. 430 crore so now in the second half it will be around Rs.250 to Rs. 300 crore.

Siddharth Bera: Okay. And next year it is around?

B. K. Bansal: It would be balance expenditure so it could be around Rs. 500 to Rs. 600 crore, so in a span of three years the total CAPEX would be around Rs. 2,000 crore including maintenance CAPEX.

Siddharth Bera: Okay, got it sir. And lastly sir if you can share the mix for the Agri OTR and OE replacement also?

B. K. Bansal: Sure, for Q2 agri is around 60%, OTR is 36% and balance is other non-garden and replacement is 73%, OEM is 25% and off take his balance 2.5%.

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

Hitesh Goel: Sir my question is related to the second half EOB or outlook suggest you are building a growth for second half on a Y-o-Y basis. So can you give us some sense where you're seeing some green shoots either in OTR Agri segment or how should we look at it. And second question pertains to this additional marketing expenses that you have spent this year in 1H. Is this going to be an ongoing trend in FY21 also, and what benefits are you getting with geographies are you spending this amount so if you can give some sense to us?

Rajiv Poddar: So, regarding the, overall we are seeing the market being stable, but there are some areas like India and Eastern Europe, America where we see some green shoots. So that's where we see the market to bring us back to the level which we were talking about in the numbers. And as far as the second question is concerned, regarding the so these marketing expense will go on for some time. It's going to be a continuous sort of arrangement. And of course, we are seeing some benefits for what we did last year and where we started. So the brand is started to get more recognition. And we are hopeful that by the end of this cycle, we should achieve our objective.

Hitesh Goel: So this run rate of marketing expenses should continue in FY21 that is what?

B. K. Bansal: Yes.

Hitesh Goel: And sir one more thing on this Carbon Black that you said that major benefit has come, some benefit has come through in RM because of Carbon Black, what is the kind of benefit that has come through in RM can you suggest that and what is likely to come in future quarters?

B. K. Bansal: So, it is in line with what we have projected in the current quarter the amount is around Rs. 10 to Rs.12 crore and on the full utilization basis on Phase 1 on a turnover of 5,000 crore the benefit from the Carbon Black should be around Rs.50 crore

Hitesh Goel: Which will fully get realized next year?

B. K. Bansal: Yes.

Hitesh Goel: Okay. And sir my final question on this US and China they are talking about that agri, China will take more agri products from US that was discussed in there negotiation they are doing. Does that impact any which ways your volumes in Europe because in Europe, we used to send agri products to China any major impact because of this trade?

B. K. Bansal: This dispute is resolved then definitely it will improve the overall business sentiment and will help all the industries.

Hitesh Goel: No, I was saying because Europe was sending agri products to China but now China is saying we will take additional products from US and you being more heavier in Europe and lesser market share in US does this impact your business or it doesn't?

B. K. Bansal: Not at this moment, we don't see it as a major problem as of now.

Moderator: Thank you. The next question is from the line of Asutosh Tiwari from Equirus. Please go ahead.

Asutosh Tiwari: Firstly on the, likes we have seen 12% decline in volumes in the first half so can you provide some color on is it also related to the distributors his de-stocking still continues in 2Q or I wanted to say whether retail sales are better than what we are reporting in the numbers?

B. K. Bansal: I think it's a mix of both, the retail number also are little low. And there is some destocking because overall market sentiment are not very positive, they are challenging. So it's a mix of both.

Asutosh Tiwari: So, do you think that the distributor restocking will probably stop in third quarter because we probably started seeing the volume down take from third quarter last year?

B. K. Bansal: No, I mean, we'll have to wait and watch but I think another quarter or two, and then we could probably get a better picture on that.

Asutosh Tiwari: Okay. And secondly, on taxation basically if you look at the tax rate in the first comes around 8.4%. So, what will be the fully tax rate for us?

B. K. Bansal: No, fully tax rate would be 25.17 only. This is the reversal of deferred tax liability.

Asutosh Tiwari: Okay, so second half the tax rate will be 25.17?

B. K. Bansal: Yes, in fact for the full year it would be, except this deferred tax adjustment tax rate would be below 25.17 only.

Asutosh Tiwari: Okay. And lastly, if I look at the large size mining tire so, can you provide some color what kind of volumes or contribution to our say that provides now contributes now?

B. K. Bansal: We do not have separate number for large size mining tires, but it is a on the increasing trend only and yet the contribution from them is very-very small in the overall scheme.

Asutosh Tiwari: And which are the key geographies we are supplying this tires to as of now, which markets have become good markets for us for?

B. K. Bansal: India, US, Canada, Australia.

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

Abhishek Jain: Sir what is the current market share in Agri and OTR segment, is there an improvement in last one year and what sort of the changes coming in the competitive landscape and technology in this segment and how's your pricing compared to your competitor?

B. K. Bansal: So, nothing has changed in last one year, everything is same. So our market share is also broadly at the same level, on overall basis it is around 5% in agri it would be around 8% and in OTR it will be 2 to 2.5%.

Abhishek Jain: And how is your pricing compared to your competitors because you have not taken any price hike in last one year, so are you facing some pricing pressures there?

B. K. Bansal: No, we have taken some price reduction in the first quarter, in line with the reduction in raw material prices and still the gap between us and the Tier 1 would be in the range of 10 to 15%.

Abhishek Jain: Okay, and as you know sir Ceat is also adding capacity in the OTR segments, how this will impact your volumes?

B. K. Bansal: We do not know what kind of capacity they are adding so it would be difficult for me to comment on that.

Abhishek Jain: Okay. And sir my last question, is related with the channel inventory, how this is placed in a different market, especially in the Europe?

B. K. Bansal: The channel inventory is in line with the procurement cycle. And in a good market, they create more inventory, which is not happening currently. So, everyone is maintaining inventory according to his procurement cycle.

Abhishek Jain: So what is your optic guidance for the second half of FY20?

B. K. Bansal: So we said that overall there can be a minor de-growth. So second half would be almost flat.

Moderator: Thank you. The next question is from the line of Vimal Goel from Union Mutual Fund. Please go ahead.

Vimal Goel: Most of my questions have been answered. But I missed the geographical split of your volumes. Could you just repeat that please? Thank you.

B. K. Bansal: Sure. So Europe is around 47% and America is 19%. India is 20% and balances is ROW.

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

Nishit Jalan: Sir I have two questions. Firstly, just wanted to check on the mining side when we have entered. Obviously, in agri we are well entrenched, we have a good distribution. How are we placed on the mining side now, because I understand that we need to expand our reach with mining service providers quite extensively to gain share over there. So where have we made good progress and what are the areas where we still need to do a lot of work, any anything on this front?

Rajiv Poddar: So basically, on the mining side, as I mentioned that the tires are performing well and they are getting good response from the end users. However, its initial steps and we are working closely to make ourselves a strong player in this. We are increasing our product range, we are increasing the capacities and strengthening our distribution. So, I think for the work to completed it should take a few years before we become a big player in this field as well. But we are in that direction.

Nishit Jalan: So US is still a work in progress in that sense, and we need to expand our distribution significantly?

Rajiv Poddar: Now our distribution has got established in US, but as and when the product goes, gets tested gets used, more and more people are coming back to reuse and that’s what I meant by strengthening the distribution. So giving them more confidence in the product.

Nishit Jalan: Okay. And just one more thing. I was looking at the financials of your global peers as well like Titan and Trelleborg, we have seen that their margins have come off quite significantly as well in this quarter. So just wanted to get a sense are you getting any sense in the market that competitive intensity is coming down, or basically at least that the benefit that are there from the raw material prices that will not get passed on to the customers. Are you seeing any signs of any improvement in pricing in the end market?

Rajiv Poddar: I don't think there is increase, nobody is taking an increase in the marketplace. I think everybody is waiting and watching what to go. However we are evaluating and as and when there's any opportunity, we will seize it.

Moderator: Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: I think most of the questions have been answered, just how are you seeing the competitors in the Europe market behaving? In the sense that are they looking to play a pricing game to increase their business? Or are they being more aggressive? And what is going to help us to differentiate ourselves while we have been always having that price gap but what are the other things we will need to do to increase our market share over there compared to them?

B. K. Bansal: So, fortunately there is a good pricing discipline in all the market. So, nobody is going out of the way to gain the market. Everyone understand that the overall market is difficult and they are enjoying their respective market share. So fortunately we have not seen such kind of trend or behavior in the market.

Mithun Soni: Then sir how can we further increase our market share, let say today we are you said it's about 8% odd. What is our aspiration in the next three years and what are the steps we will need to take to reach there?

B. K. Bansal: So, our aspiration is to be a 10% around a 10% mark, and we are working towards that I think already we are talking about marketing expenses, which we are going to build up and create more awareness of it. We are working with our distributors closely to see how we can penetrate market much more. And these are some of the activities we're doing to really gain more market.

Moderator: Thank you. The next question is from line of Raj Koradia from Edelweiss. Please go ahead.

Shradha: Hello sir this is Shradha here. Sir just one question from my side. Just wanted to get the sense no the outlook because another peer last week, they said there is no improvements happening in North America also and in fact there is additional weakening happening even beyond North America. And as you also said even in the construction market now that slowdown has started percolating, which has led to the OEMs also now going below their retail demand level. So, what is outlook, and can it take longer than expected because now we are seeing the slowdown even in the construction side. Geographically what is the outlook and also segment wise what is the outlook?

B. K. Bansal: Yes, your understanding is absolutely correct the overall outlook is challenging. And that is why we have said that probably we can see some de-growth in the current financial year. So earlier it was confined to agriculture segment mainly due to environment related challenges. But now, overall macro environment has not been very supportive. So, we are seeing softness in the OTR segment also. So, industrial, construction, mining everywhere there is a slowdown and in terms of geography also the slowdown is seen across the geographies. And that is what we saw this time during the second quarter, even India which was doing well. So, we have seen the softness in India sales also. So it will take some time it's very difficult, the things are so volatile that it is very difficult to give any timeframe as to when they will improve. But so that's why Mr. Rajiv also said that we are in wait and watch mode how things pan out.

Shradha: And this OTR cycle has turned after how long, it was in a positive run for almost, I think two years or so. Right?

B. K. Bansal: Yes. So, two years it was good and now until last quarter it was good. It was not as bad as the agricultural segment was but from this quarter, we have seen softness in the OTR segment also.

Shradha: So it is a similar decline across segments you are saying?

B. K. Bansal: Yes.

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

Hitesh Goel: Sir just wanted a sense, I was looking at 1H 20 and 1H 19 realization per kg that is down around 5.6% on a Y-o-Y basis, I understand there's some impact of currency may be around 2%. Can you just tell us and your OTR has done better than agriculture segment, so how much is due to this price reduction, how much currency and how much mix can you give us some sense on it?

B. K. Bansal: So price reduction is around 4%.

Hitesh Goel: So it's mostly price reduction and 2% is currency?

B. K. Bansal: Yes.

Moderator: Thank you. The next question is line of Pavan Parakh from Renaissance. Please go ahead.

Pavan Parakh: Sir you said you expect H2 to be flat Y-o-Y?

B. K. Bansal: Yes.

Pavan Parakh: That means like about a 6-7% decline on a full year basis?

B. K. Bansal: Yes, that is what we said that around 5% kind of de-growth but very difficult to quantify it. But directionally it looks soft.

Pavan Parakh: And sir specifically mining would be what percentage of our volumes now?

B. K. Bansal: Mining would be around 10 to 12%.

Pavan Parakh: Okay. And what would have been when the growth is only mining say H1 versus H1 or Q2 versus Q2?

B. K. Bansal: H1 there has been a decline, and quarter-on-quarter also it has been decline.

Pavan Parakh: But sir, as we said we are expanding our business. We are a very small player so we should have seen growth at least in this segment, right?

B. K. Bansal: Yes. So, when you see the things in the relative terms you will find out performance on our side, so while there is a minor de-growth but if you see the industry trend I think the de-growth would be in the range of 20 to 25%. So with that sense there is outperformance, that we are not down in proportion to the overall decline in the industry.

Pavan Parakh: And what would have been the similar industry level growth in agri?

B. K. Bansal: Now, this time there is no growth there is a decline.

Pavan Parakh: What is the decline at the industry level in agri?

B. K. Bansal: In agri also I think the decline is around 20 to 25%.

Pavan Parakh: And so, obviously on a low base we should obviously see a better FY21, so what are the key things to watch out for FY21 for us for a better volume?

B. K. Bansal: So, the one thing is the environment, weather condition in the Europe, the overall macro environment commodity prices, the food inflation, I think these are the key, parameters. So you can track to get some sense that directionally where we are positioned.

Pavan Parakh: Finally, you said advertisement our promotional spends will continue, so the absolute amount will continue on that you see as a percentage of sales?

B. K. Bansal: No, it is absolute amount. So percentage will vary.

Moderator: Thank you. Next question is from the line of Shyam Sundar Shriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sudar Shriram: Sir, how is the go to market opportunity, go to market approach different than mining vis-à-vis agri if you can just talk about that a bit?

B. K. Bansal: I didn’t get your first question.

Shyam Sudar Shriram: How is the go to market approach different than the mining segment vis-à-vis the agri segments?

Rajiv Poddar: Market on the agri side is more towards end users, farmers whereas the mining side it's more towards corporates who are running the fleets, that's the difference and also the product is different, the requirements of the product are different, service requirements are different. So it's a totally different go to concept.

Shyam Sudar Shriram: Okay, understood sir. Sir over a period of two years, assuming global conditions remain as is where is, how do we look at the growth in the OTR and Agri segments for us, if you can give some color, you did point out some lead indicators but from our perspective given that we have been outperforming the industry by a wide margin can this kind of outperformance sustain over the next two years as well?

B. K. Bansal: Yes, we are working towards that. That's our goal and objective and we are working towards that and at the moment we are confident that, with the steps that we are taking, we should be in that direction.

Shyam Sudar Shriram: Understood sir. Sir one last question if I may, given the RM benefits that we have from our own Carbon Black facility do we have further scope to reduce prices and gain market share. Is pricing can that be a lever to gain market share in this scenario?

Rajiv Poddar: We have never been in the market to reduce prices, we hold our position, we hold our prices we do that. And if the moment we are at par with our peers where we want to be positioned the marketplace because of our pricing. So we don't want to drop the prices and take the market at this stage. We want to hold on to that.

B. K. Bansal: And we have seen that by reducing the prices it is not going to help us, we are already down by 10 to 15% from our peers. So, that gap is already there and which is already helping us to gain the market share, by further reducing the price unnecessarily we will be positioning our brand to a lower level. So in the long run it will not be a good strategy.

Moderator: Thank you. Bharat Gianani from Sharekhan your line is unmuted for question. Please go ahead.

Bharat Gianani: My question is on, you have been highlighting that you will be increasing the marketing spends to capture growth opportunities in the markets. So, basically I was just trying to understand that on one side we have the benefit of the captive Carbon Black that we have, that you have guided for. And so just wanted to understand that structurally reform if you see from a two to three year perspective, would you like to place any comment on your margin trajectory. So, what I was trying to understand is that basically do the marketing or the promotional expenses increase to such a level that structurally you see the margin going down or any comment on that would be really helpful, thanks.

B. K. Bansal: We have been telling that our margin ranges is 25 to 28% which we are still maintaining, and we have a strong visibility of falling into that range. So incremental marketing expenses, etc will be well taken care of and we will be within this margin range.

Moderator: Thank you. Next question is from the line of Rajesh Kothari from Alpha Accurate. Please go ahead.

Rajesh Kothari: Satisfactory performance considering challenging macro environment. I don't know if you have already answered this question. But can you tell a little bit break up between USA and Europe and how the US market, what kind of growth you have witnessed in US in second quarter ending first half?

B. K. Bansal: This time every geography have been challenging. So, US has also been down but comparatively Europe was more down because of the environment related challenges.

Rajesh Kothari: Okay. And if I look at last five years, Europe has been always I am saying from the industry perspective if I look at the agri growth, if I look at inflation, if I look at the food inflation it has been kind of stagnant, if I broadly look at five years CAGR from the European market perspective, but of course in that challenging time despite that we kept doing very well. So, is it at times maybe the inventory issue, at times might be something more market share and more products and so on and so forth. So, if you see from next two years perspective, can you little bit further give us some insights in your strategy which you have mentioned on slide number 14, the market reach penetrate America product portfolio expansion Indian market and utilization. So if you can give some more insight that, therefore what kind of growth that can result into and what basically you are doing to improve your growth number. Because Europe was always struggling market from the growth perspective from last too many years.

B. K. Bansal: No, it was not giving trouble it was in fact it has been very supportive market and very stable market. It is only in last two years, we have seen challenges which is because of the environment thing and which also we have seen for the first time in our history so otherwise Europe has been a very stable market, the agriculture segment has been very stable. And this environment thing was never envisaged. But unfortunately it has been happening for last two years consecutively, so that is the thing. Otherwise, it is a very stable market.

Rajesh Kothari: Fine. So if I read caterpillar for example, the recent transcript, they have been sounding a little bit positive from inventory perspective and from growth perspective. So, can you do your insights into how you are reading and how you are able to forecast kind of the outlook?

B. K. Bansal: We have already said that, outlook is not very strong. The overall business environment is challenging and so we do not see any strong visibility in terms of demand across geography and across product segment.

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

Nishant Vass: Sir first from a new market perspective, remember when we were evaluating the US investment. One of the associated markets that we were trying to explore was Latin America through it. So now, how are you guys thinking about that market, because that's a large agri market place. So first, your thoughts on that? And then I have following questions.

B. K. Bansal: No, we are already present over there. We are already supplying over there. We were thinking that plant could help us in terms of increasing our competitiveness by avoiding the duty. But still we will continue to grow over there through various steps, like better warehousing from there. And in any case, even if the plant would have come, we never plan to start supplying everything from there, it was only the exigencies or emergency requirement of the customer which we were thinking to meet through that plant. Otherwise, most of the requirement we were planning to meet through our India operations. So, from that perspective, we are not seeing any significant difference by dropping that plant. And overall strategy and the working would be same to gain the market share.

Nishant Vass: Okay, just because looking at the brand investments that we are making and we are making it significantly in Europe, Latin America doesn't seem to be like figuring how high on the agenda is, from a brand investment perspective?

Rajiv Poddar: No, not at this stage. We will evaluate in the future and if required, we will do the needful. But even though we are spending money on the various sponsorship activities in a particular geography, the benefit of that is accrued across the world because those sports are being seen across the world and we automatically get benefit of that.

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

Rounak Sarda: Sir first question, if I just look at this ETRMA database which has come for the quarter and for nine months, so the de-growth which they are highlighting in replacement market is 6 to 8% and our de-growth has been slightly higher than that. So how do you read this data?

B. K. Bansal: I have not seen the data, so I am not in a position to comment on that.

Rounak Sarda: Okay. So it just came out yesterday.

Rajiv Poddar: You can discuss with me separately offline.

Rounak Sarda: And sir second question is, the CAPEX amount I joined the call a bit late sorry if you had answered this, can you highlight what will be the CAPEX amount for this year and next year?

B. K. Bansal: This year it is around again Rs. 700 crore out of which we have already spent 430 crore during first half.

Rounak Sarda: And next year would be?

B. K. Bansal: Next year would be around for Rs. 600 crore.

Rounak Sarda: Okay. And sir last question is on the raw material side, can you share what was the raw material pricing for the quarter and how are you looking in second half right now?

B. K. Bansal: So, second half, I think more or less it would be similar. Now, I am seeing that some spike in the crude prices. So there can be some increase in the crude derivative prices. But, looking at the demand scenario, I don't see any significant increase in the raw material cost. So, it will be in a narrow range only.

Rounak Sarda: The quarter-on-quarter we have seen a very sharp benefit on the raw material side?

B. K. Bansal: Yes, that is because of the Carbon Black benefit which is being captured in RM cost.

Rounak Sarda: The in-house production you mean?

B. K. Bansal: Yes.

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

Ashish Shah: Sir how has been the de-growth across geographies. Have you seen any pressure in any particular geography more like we said that, Europe had more impact versus US?

B. K. Bansal: Yes, so Europe is for last two years facing challenges on account of unfavorable weather conditions. In US it is mainly trade war driven and also some bit of environment related challenges because US has also witnessed flood in some part and some other challenges. So, overall things have been very erratic from environment point of view, and the macro has also not been in shape.

Ashish Shah: So, what I am trying to understand is that, in Q2 would it be fair to say that the tonnage de-growth in Europe would be above our average de-growth maybe around 15% plus de-growth in Europe and other geographies were relativity better?

B. K. Bansal: Difficult to save this way, we have guided that the full year basis there will be some de-growth so second half that way would be almost to flat.

Ashish Shah: Okay. So, I was just trying to understand from the geography perspective like I will tell you where I am coming from. I just wanted to understand, if there's a 15% plus de-growth and have we, how do we stand in market share especially in Europe, because if we are de-growing by 15%, so, is there any impact on the market share?

B. K. Bansal: So, if we there is an overall industry de-growth of around 20 to 25%. And we are seeing de-growth of 15%. So, there is outperformance on our part to the extent of 10%.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

B. K. Bansal: So, I thank you all the participants for their valuable time and have a nice weekend. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Kotak Securities that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.