“Balkrishna Industries Limited
Q3 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Balkrishna Industries Limited Q3 FY20 earnings conference call hosted by SBICAP Securities. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Jain, from SBICAP Securities. Thank you and over to you Sir!

Chirag Jain: Thank you, Raymond. On behalf of SBICAP Securities, I welcome you all to the Q3 FY20 Earnings Conference Call of Balkrishna Industries Limited. We have with us today, Mr. Rajiv Poddar, Joint Managing Director; and Mr. B.K. Bansal, Director of Finance, representing the company. We request the management for the opening remarks, post which we will open the floor for Q&A. Over to you, Mr. Bansal!

B.K. Bansal: Thank you Mr. Chirag and good afternoon to everyone. I welcome you all to the Q3 earning call of our company. I am joined by Mr. Rajiv Poddar, and Mr Shogun.

To begin with the performance update, I would like to say that the market continues to remain challenging. However, we are looking at better growth prospects in FY21 compared to current year on account of improving global macroeconomic situation and expectation of better weather condition in our major markets.

During last quarter earning call, we had guided for a better volume performance in H2 FY20 over H1 FY20 and we remain confident on the same. We expect to end FY20 with minor degrowth on sales volume and are confident to cross 2 lakh sales volume mark. With our growing focus on improving our product portfolio, consistent product quality, efficient service levels, and better brand recognition with end customers, we believe we will continue to gain market share across segments in the years to come.

Now let me update you on the capex. The capex for the Carbon Black Plant Phase 1 with a capacity of 60,000 metric tons was commercialized during Q2 FY20. The second phase of 80,000 metric tons is progressing as per schedule, and we expect commercialization in FY21. All other capex in India are progressing as per schedule. We expect them to complete in FY21. All the ongoing capex, therefore, are likely to start contributing from FY22.

With this, I will now move on to performance highlights. Our sales volume for the quarter was 47,321 metric tons, showing a growth of around 5% Q-o-Q and 1% Y-o-Y. For 9 months, sales volume stood at 143,794 metric tons, showing degrowth of around 8% Y-o-Y. Our standalone revenue for the quarter stood at Rs.1,183 Crores, showing a degrowth of 1% year-on-year, whereas showing growth of around 7% Q-o-Q. This includes realized gain on foreign exchange pertaining to sales of Rs.23 Crores. For the 9M FY20, stand-alone revenue for the quarter stood at Rs.3,508 Crores, which includes realized gain on foreign exchange pertaining to sales of Rs.83 Crore.

On the EBITDA front, for the presentation purpose, we have shown the interest income from investment and unrealized gain/loss below the EBITDA, while realized foreign exchange items have been shown above EBITDA. Accordingly, the stand-alone EBITDA for the quarter was at Rs.369 Crores with a margin of 31.2%, and the stand-alone EBITDA for the 9-month was at Rs. 974 Crores with a margin of 27.8%. Other income for the quarter stood at Rs. 30 Crores, which includes net gain on foreign exchange to the tune of Rs. 6 Crores and other income from investment of Rs. 24 Crores. For the 9-month, other income stood at Rs. 182 Crores, which includes net gain on foreign exchange to the tune of Rs.103 Crores, and other income from the investment of Rs. 80 Crores.

Coming to the net forex items; for the quarter, we incurred a net forex gain of Rs. 6 Crores, which includes realized gain of Rs. 28 Crores and unrealized loss of Rs. 22 Crores. For 9 months, we incurred a net forex gain of Rs. 103 Crores, which includes realized gain of Rs. 97 Crores and unrealized gain of Rs. 6 Crores. Profit after tax stood for the quarter was at Rs. 221 Crores showing a growth of 52% on a year-on-year basis, while for the 9-month, it was recorded at Rs. 688 Crores showing a growth of 15% on a year-on-year basis. The profit after tax has been higher on account of reduced taxation rate pursuant to change in corporate tax rate as well as re-measuring of cumulative deferred tax liability. We are a zero long-term debt company. Our cash and cash equivalent were Rs. 1,204 Crores, implying a net cash position, not only on long-term basis, but otherwise on short-term basis also. The Board of Directors have declared a third interim dividend of Rs. 16 per share in addition to Rs. 4 per share paid for H1 FY20.

That is all from my side. Now I leave the floor open for question and answers. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Siddhart Bera from Nomura. Please go ahead.

Siddhart Bera: Thanks for the opportunity and congrats on a great set of results.

B.K. Bansal: Thank you, Siddhart.

Siddhart Bera: Congrats on a great set of results. Sir, on the volume growth side, we have reported around 1% volume growth. So, I was expecting the growth will be slightly higher, given the trends in the export data which we have seen. So, anything here, which we are missing here?

B.K. Bansal: No, nothing you are missing. Actually, it started from the month of December. So, you will see what you are looking for in the next quarter.

Siddhart Bera: Okay. So next quarter, we might see a stronger volume growth?

B.K. Bansal: Yes.

Siddhart Bera: And any outlook or guidance, if you can give for FY21? Where is the improvement in demand coming from and any outlook, if you can give?

B.K. Bansal: See, outlook definitely is better. However, we will give the guidance when we assemble for the next earnings call. But overall, demand looks better.

Siddhart Bera: Okay, Sir. Lastly, on the commodity side, we have seen quite a healthy benefit on the gross margin side in Q3. Can you broadly indicate the key reason because commodity prices, which we track, have not actually come down materially in Q3 but currently, I think crude prices are much lower so are there some more benefits we are seeing in Q4? So, if you can highlight if this factors in most of the benefits or you expect some more benefits?

B.K. Bansal: No. We are expecting some more benefit from the crude, particularly the crude derivatives. So definitely, that benefit would be visible in the next quarter.

Siddhart Bera: Got it, Sir. I will come back in the queue for some more questions.

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

Vimal Gohil: Thank you for the opportunity, Sir. Sir, I just had a question on your gross margin improvement. So how much of the gross margin improvement in this particular quarter has come from raw materials and of course, your backward integration of your Carbon Black would also have contributed. Just give us some broad indication as to how have both these variables contributed to that?

B.K. Bansal: So largely, it is on account of raw material correction. And definitely, the Carbon Black has also contributed, which is around 125 basis points on the sales. So roughly, you can say Rs.15 Crores.

Vimal Gohil: Sir, what would you say is your sustainable gross margins on a medium-term basis for the next couple of years? Would you want to give some number over there because this is a very strong performance, I agree, but would this be sustainable on the gross margin front?

B.K. Bansal: So, there is a good visibility for this kind of margin in the near to medium term. Long term, it is difficult to predict because there are so many factors, which impact the margin.

Vimal Gohil: Would not you want to share some of your gains to your customers or have you had any conversations?

B.K. Bansal: No.

Vimal Gohil: Sir lastly, if you can give us the revenue breakup between volumes for Europe, US, ROW, India?

B.K. Bansal: Revenue breakup, I don't have, I can give you the volume breakup.

Vimal Gohil: Yes, sure for volume breakup.

B.K. Bansal: Europe is around 48% and America is around 20%, India is 21%, and balance is rest of world.

Vimal Gohil: Sir, agri OTR?

B.K. Bansal: Agri is around 60%, OTR is around 36% and 4% are other ATV and lawn and garden.

Vimal Gohil: Lastly, OEM, replacement. Thank you.

B.K. Bansal: OEM is around 25% and replacement is 75%.

Vimal Gohil: Fair enough, Sir. Thank you and all the very best.

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

Hitesh Goel: Thanks, Sir and congratulations on very good results.

B.K. Bansal: Thank you.

Hitesh Goel: Sir, just wanted to get some sense on the realization improvement, which has improved by 2% Q-o-Q, this is purely mix because last quarter you had highlighted there is some pricing pressures in the market, and so how is the pricing panning out in the market and some sense on how realization should be?

B.K. Bansal: No pricing extend was taken during third quarter and this on an account of product mix as well as some currency benefit.

Hitesh Goel: So, hedging has been much higher in the quarter?

B.K. Bansal: Yes, right.

Hitesh Goel: This raw material cost benefit or you sitting with some low cost inventory in this quarter because of which Q-o-Q cost have come down?

B.K. Bansal: Yes.

Hitesh Goel: So, going forward?

B.K. Bansal: Going forward, the raw material prices are expected to remain benign. So, the overall raw material cost should remain lower..

Hitesh Goel: Great, Sir. Thank you.

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

Arvind Sharma: Good evening, Sir. Thanks for taking my question. Suggest on the EBITDA part, EBITDA per tonne has seen a stronger performance, now how is the competition in the industry, ODT would it be prudent to think that going forward if you keep on getting realizations and cost pressures are low, so what is sustained EBITDA for per tonne level beyond which we would want to perhaps gain market share instead of gaining on the profitability part?

B.K. Bansal: See, our prices are already lower by 10% to 15% and which is helping us to gain the market share, so there is no such strategy or thought process to face in with the customer.

Arvind Sharma: I think in terms of competition and across the globe, your prices would be lower than like your top end? Or in terms of spectrum, where would you be on a blended basis? Just trying to find out if such strong margins can be sustainable?

B.K. Bansal: Yes, this comparison is from the tier 1 player.

Arvind Sharma: Any other players putting out of Asia or other countries, which could be competitive?

Rajiv Poddar: As a part of our strategies, we are spending a lot of money for building our brand, so we do not want to reduce the price to compete with tier 2, tier 3, tier 4 level players and hence there is no plan as of now to reduce the price further to gain market share. What we are trying to do, is to make sure that we are balancing it out with the tier 1 players and as Mr. Bansal said we should be 10% to 15% lower than them, which we are working towards in terms of building our brand so that is our strategy, so going long-term we look to gain market share from these players.

Arvind Sharma: Great, Sir. So, these margins should sustain in the market share.

Rajiv Poddar: We hope.

Arvind Sharma: Thank you so much, Sir.

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

Ashutosh Tiwari: Sir, congrats on strong numbers. Firstly, I think you have seen some decline in the India volumes in the second quarter, so how was the trend in the third quarter?

B.K. Bansal: Third quarter it has increased.

Ashutosh Tiwari: Roughly, what growth is showing in the volumes?

B.K. Bansal: Has increased by almost 12% to 13%.

Ashutosh Tiwari: Got it, secondly, you see the Chinese players also have decent share with the US as well and because of all these issues, supply from this side might be impacted, are you seeing a trend that distributors are willing or want to have stock more of your tariff because they might see some supply issues from China, is that thing happening as of now or is not visible?

B.K. Bansal: It is too early to say, I think everybody is waiting and watching on how long it will take China to recover, so business cost we are looking at the scenario and we are hopeful, but it is too early to say any trend or any impact to be seen.

Rajiv Poddar: But definitely going by logic, people will definitely like to develop alternate source for the supply so that their business is not impacted, so it is somehow helping us.

Ashutosh Tiwari: And in our pick that you are seeing in the market right now, is it both Europe and US are improving similar or US is slightly better than the Europe?

B.K. Bansal: Yes, I think it is across geography, as we were, the trend is very encouraging.

Ashutosh Tiwari: Lastly, what are the hedge rates for the quarter?

B.K. Bansal: Around Rs.80.

Ashutosh Tiwari: And going ahead, this is similar only?

B.K. Bansal: Yes.

Ashutosh Tiwari: Thanks a lot.

Moderator: Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.

Anuj Jain: Thanks for the opportunity, Sir. What is the update on capex for large size tires?

B.K. Bansal: That is in progress and it will be commissioned during next financial year, so commercial productions would start in FY22.

Anuj Jain: The tyre, which we are manufacturing of 51-inch diameter, is it all-steel radial tire?

Rajeev Poddar: We have both. We have both, the regular ones, the bias as well as all-steel radial.

Anuj Jain: Okay. So, I understand that it has been a year now that we are manufacturing 51-inch diameter tire. So, it would be great if you can throw some light on the response for this particular product and any sort of OEM wins for this product?

B.K. Bansal: So as of now, the tires are being sent to various geographies for testing. We are monitoring them on a continuous basis. We are waiting for 1 full cycle to be completed before we can really comment on how it will progress. So, it will take us some more time before we can get into technically, like a full-fledged commercial production. So, it is yet under technical evaluation.

Anuj Jain: Understood, that was useful. Thanks, and all the best, Sir.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Congrats for good set of numbers. Just wanted to understand, in the opening commentary you said that since Q2 results macros have improved for your demand and outlook is improving, so if you can highlight few of the drivers, which you think or what is while improving the outlook per se, which are changed in last one quarter?

B.K. Bansal: The overall trends have changed particularly with the resolution of the trade war, the sentiment has improved and those who are on the sideline have started taking active participation in the market, so that has increased the prospect. Secondly, the commodity prices have also improved and that has also created good demand for the ORT product and the precepts of rabi seasons are also looking good, so that has helped the agriculture segment.

Basudeb Banerjee: Sure. Second thing, like, sir, you were producing larger tyre, more radial products out of Bhuj. So down the line in next 2, 3 years, do you see any major new thing coming in your portfolio, which will change your product mix significantly or it will largely remain similar?

Rajeev Poddar: It will largely remain the same. Of course, every day we keep on adding few sizes, few segments to fill up the pocket, but largely, it will remain the same.

B.K. Bansal: It will change gradually, in the short span of time it will not change significantly.

Basudeb Banerjee: Sure, and last thing, if I see your other expenses are down for the third consecutive quarter. And I remember last year when you were spending more on trade exhibitions and expanding into newer markets, so 2 things, how are you seeing demand from those new markets where you were investing and how one should look at the quarterly other expense, in general, because that is coming down from Rs.300 Crores to Rs.260-odd Crores is also significantly adding to your margin?

B.K. Bansal: Actually, one should not look at the absolute number in other expenditures because it mainly consist of various variable expenditure on account of power, freight, repairs and maintenance, stores, etc., and only some portion is fixed in nature. So, it all depends. Now, if volume increases, then definitely the quantum of other expenditures will also increase, but I think it has been around 21%, 22% of the topline. So, it should remain at the same level.

Basudeb Banerjee: Sure, Sir, but any quantification of the new markets where you have been trying, how they are progressing?

B.K. Bansal: So, we are present at almost all our major potential market, now we are just harnessing those markets more and going for deeper penetration into those markets and that is how we are increasing our sales, so that way no important market is left behind from addressing point of view.

Basudeb Banerjee: Sure, thanks.

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

Bharat Gianani: Thank you for the opportunity and congratulations on great set of numbers. My question is related to the Carbon Black project, so this basically 60,000 MT is efficient for our current level of production, so I just wanted to get a sense that the 80,000 that would come up in FY22, will not be purely outside sales or any assessment some thing of that portion would be utilized for the captive purposes and could you highlight what is the kind of realizations you expect if you sell it in the outside market, so that would be my first question, thanks?

B.K. Bansal: So, as far as realization is concerned it will be in-line with what is being sold in the market, so currently it is around Rs.70 or so, so accordingly and whenever it changes we will also be changing it. Now coming to your first question about how the entire production will be utilized, so basically the total capacity we will have of 1,40,000 metric tonnes and out of which we will get actual production of 1,25,000 metric tonnes, at the full capacity of our tyre plant, we will have a requirement of around 85,000 to 90,000 metric tonnes, so balance we will be selling in the market.

Bharat Gianani: Sir, the second phase that you pointed out, when will be the actual production commence like what is the timeline for that?

B.K. Bansal: Which production, we have already commenced.

Bharat Gianani: No, second phase when the commercial production will start?

B.K. Bansal: In the first half of the next financial year.

Bharat Gianani: Sir, last question was on this 85,000 to 90,000 net captive that you pointed out, that is on the utilization of 3 lakh units, right?

B.K. Bansal: Correct, so till we stay at that level whatever surplus we will have, that we will sell in the open market.

Bharat Gianani: Sir, lastly what range of margins you will make if you sell it in the outside market because I think the margins would be fairly less than what we are currently making, so any comments you would like to share on that would be helpful?

B.K. Bansal: So, margins should definitely be better for us and on the overall basis we are seeing with our margin of around 25% on Carbon Black business.

Bharat Gianani: If you sell it in the outside market, you need to make 25% margin, is that what you are saying?

B.K. Bansal: Yes.

Bharat Gianani: Okay, Sir. Thanks, and all the best.

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

Ronak Sarda: Sir, thanks for the opportunity and congrats on good set of numbers. Sir, you usually share the cost per kg for natural rubber number, can you share what was the number?

B.K. Bansal: Unfortunately, it is not available with right now.

Ronak Sarda: But sequentially the drop, which we see in per kg term, is that the kind of drop that actually across the raw material or it is mainly coming from natural rubber or crude derivatives?

B.K. Bansal: No, it is in all the raw materials, natural rubber as well as the other crude derivatives.

Ronak Sarda: Second question on the volume side, so in terms of when you say Q4, full year you will see marginal decline, what are you estimating for the next quarter, are you expecting the volumes to reach around 2,10,000 units or tonnage in terms or less than that, because in Q4 overall you will a marginal decline in FY20?

B.K. Bansal: I said we will be crossing 2 lakh marks.

Ronak Sarda: We will cross 2 lakhs?

B.K. Bansal: So, it should be around somewhere between 2 to 2.5 lakhss

Ronak Sarda: Sure, Sir and the trend have been similar in these one and half months, which we are seeing?

B.K. Bansal: Yes.

Ronak Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Pramod Amthe from CGS CIMB. Please go ahead.

Pramod Amthe: Congrats on good set of numbers. Two things, one if we look at your user industry there the confidence is still not there for them to give any strong guidance either from Europe or US, so as compared to the performance, which you are looking and the improvement you are expecting in the coming quarters, is it driven initially by the inventory stocking up at your dealers end or it is a genuine you feel the recovery of the demand?

B.K. Bansal: It is a mixture of both, so there is a good demand at the end consumer level and also at the dealer's level.

Pramod Amthe: Second with regards to your Carbon Black if I understand rightly, you are already selling even though you are not at your peak production, you are already selling your Carbon Black into the open market, can you give a perspective why you are selling as you could have consumed, is there is a quality difference better than the thing and hence your realizations are superior there?

B.K. Bansal: No, since we will have surplus capacity going forward, so we are developing the market simultaneously.

Pramod Amthe: Sir, in that sense what is the mix now, how much you consume versus how much sell off?

B.K. Bansal: Mostly it is consumed internally, only some portion we are selling in the market. I do not have the exact number, how much we are consuming and how much we are selling in the market.

Pramod Amthe: Sure, thanks and all the best.

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 and congratulations on good numbers. The first question that I have was, could you give us a sense of how much do the Chinese have in terms of market share in your key European and American markets in your relevant segment?

B.K. Bansal: It is difficult to give you exact number for Chinese production, but we could say that manufactures from Asia would be probably having a tune of 20% to 25% of the market.

Joseph George: So, that is Asia excluding yourself or including yourself?

B.K. Bansal: Including ourselves.

Joseph George: Understood. Sir, the second that I had was, could you refresh the capex guidance for this year and next year?

B.K. Bansal: Will be around Rs.700 Crores to Rs.750 Crores during the current year, next year it could beI around Rs.500 Crores.

Joseph George: So, these numbers are including the maintenance capex or excluding?

B.K. Bansal: Including maintenance capex.

Joseph George: And the last question that I had was, now the demand has revived for some point I know it is still early days, but at some point we will have to start thinking about the next expansion capex from the 3,00,000 that you have right now, may be it is early, but what do you think is the real lead time in terms of once you decide on expanding the number beyond the 3 lakh number and actually getting commencing production so lead time between the two and hence that will tell us when you should start thinking about it?

B.K. Bansal: In 18 to 24 months.

Joseph George: At this point, you have really start thinking about it, right?

B.K. Bansal: No.

Joseph George: Alright, thank you, Sir.

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

Abhishek Jain: Thanks for taking my question, Sir. During this quarter, realization has gone up sequentially while RM cost has gone down significantly; it is because bit change in the product mix and the currency benefit?

B.K. Bansal: Yes.

Abhishek Jain: So, whether this benefit will continue in Q4?

B.K. Bansal: Yes, it should continue.

Abhishek Jain: Sir, what is current channel inventory right now, how much?

B.K. Bansal: That is very difficult to give.

Abhishek Jain: Sir, I just wanted to understand is it that normal level or you have an enough space to fill that channel inventory in the coming quarters?

B.K. Bansal: No, I think below normal level, there should be some fill up in the channel inventory also.

Abhishek Jain: And what would be the tax rate for FY20, Sir?

B.K. Bansal: FY20, the normal tax rate is 25%, which is actually capable as per the new tax rule, but actual rate would be lower because of realignment of our deferred tax liability.

Abhishek Jain: Thanks, that is all from my side.

sModerator: Thank you. The next question is from the line of Audut Joshi from New Berry Capital. Please go ahead.

Audut Joshi: Thank you for taking my question. I have questions regarding investment part of non-current assets, when I was looking to investment part of non-current assets, I came to know the company has been investing in AIFs, I would like to know what cost to change from investing in fund or bonds to AIF and second part is, what is the criteria for selection?

B.K. Bansal: We invested very little amount in the AIF, otherwise, major amount is into that instrument only.

Audut Joshi: But, what cost the investment AIF, what is reason that we have started investing AIF?

B.K. Bansal: It is just to improve the overall yield on the investment.

Audut Joshi: What is the criteria while selecting the multiple AIF?

B.K. Bansal: We can discuss it offline.

Audut Joshi: Thank you.

Moderator: Thank you. The next question is from the line of Raj Kumar from Green Portfolio. Please go ahead.

Raj Kumar: Thank you for the opportunity. Sir, my question is if this second phase of Carbon Black Plant is completed, at 100% capacity utilization level, how much will be the margin expansion?

B.K. Bansal: Margin expansion in the tyre business should be around 125 basis points.

Raj Kumar: Sir, as you know that there is Coronavirus in China and we see that the China also supplies to OHT market, so if the Coronavirus impact continued for one or two months, you see more demand?

B.K. Bansal: Logically, yes, because there is a lot of supply chain disruption from the China side, so naturally it is likely to develop alternate source and we get a sense of being direct beneficiary to it.

Raj Kumar: Are we able to cater to that market?

B.K. Bansal: No, we are not going into China market, but wherever China is supplying those markets would be our incremental market.

Raj Kumar: Are we able to cater to that market?

B.K. Bansal: Yes, it is on our existing market only, so whatever is being supplied from China that has been curtailed and it is coming to us.

Raj Kumar: Could you explain something about the opportunity in terms of number?

B.K. Bansal: No, very difficult to quantify numbers.

Raj Kumar: Thanks.

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

Nishant Vass: Thank you and congratulations on the results. Sir, the first question is on the India, I just wanted to get a sense about, you have seen a lot success in terms of the last four to five in terms of India market, so just obviously the channel checks that we do with your customers suggest that you have improved in quality, can you just get us a sense what have we done right to be successful in the market, where there were a lot established players first on that?

B.K. Bansal: As you have rightly said, our biggest winner is our performance of the tyre and that is what we have always focused on, along with that we have focused on our policy of strong relations with our distributors, dealers and also looking at branding very strongly, so these are the three of our key, I think that we have done.

Nishant Vass: Sir, what is your assessment as to if I would say aspirational where do you think you have reached from India market perspective like targeted five years back, where do you think we have reached?

B.K. Bansal: I think we are on force towards our direction 10% market share wherein the Indian five year space, so we are working towards that and we are quite hopeful in the next couple of years, next few years we will get there.

Nishant Vass: Thank you. Sir, my second is of considering that you are doing so well in terms of profit structure and cash generation, so any thoughts on how you would look to give the cash back to shareholders if any and any thoughts on the management side on that?

B.K. Bansal: We have already given.

Nishant Vass: I know. I see the change, but I am just trying to get a sense of, Poddar Ji, if this is like the sustainable structure or how you would be thinking about it?

B.K. Bansal: I think we look at it on a quarter-on-quarter basis. Basically, it is a board's decision , so board decides considering the availability of cash and the future requirement of the cash, how much to be disburse, but ultimately it's a shareholders money, so in one way or on other way it will reach to them.

Nishant Vass: Thanks a lot, and all the best.

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

Vimal Gohil: Thanks once again, Sir. Could you give me what is your market share as of December, what would market share in the agri and the OHT segment as of December?

B.K. Bansal: So, on overall basis, we are at around 5% of the total OHT market. And agri, we would be around 8%, 9%.

Rajiv Poddar: Roughly about 8%, 9%, I do not know the exact number on that, and especially if we are talking globally, we would be unable to put a number. But overall, we are about 5%, 5.5% of the OHT market. And our target is to be 10%. So that's what we are working towards.

Vimal Gohil: The reason why I was asking is probably some of your global players are slightly negative on the OST market and which is why maybe I thought you have gained some market share probably in the last couple of quarters, would that be correct assessment?

B.K. Bansal: Not couple of quarters, years together we have grown by gaining the market share and I think it should continue to play in our favor in the future also.

Vimal Gohil: So, what would be your agri market share in the same quarter last year?

B.K. Bansal: Quarter-on-Quarter it is very difficult, but on overall basis it is around 8% to 9% in agri.

Vimal Gohil: On a year-on-year basis, how much would it be?

B.K. Bansal: I am saying as of today it is 8% to 9% in agri and OTR it would be around 2% to 2.5%.

Vimal Gohil: Sir, just missed hedge rate this quarter, how much was it and last how much was it?

B.K. Bansal: So, last year it was around 79, this year is around 80.

Vimal Gohil: So, just Rs.1 differentially has really led to the realization improvement?

B.K. Bansal: Yes.

Vimal Gohil: Fair enough, Thank you once again and all the best.

Moderator: Thank you. The next question is from the line of Venkatesh Sanjeevi from Pictet. Please go ahead.

Venkatesh Sanjeevi: Thanks for taking my question. This is slightly on a longer-term basis, your EBITDA margins are already at a very high level now, and going forward with the Carbon Black is already coming on stream, there could be further expansion and if volume growth does pick up from the way you are thinking and the way you are guiding, there could be more operating leverage benefit, so internally is there a way you think of you are happy with the certain level of margins and beyond that you would start reducing the prices even more because that is you had already have 15% discount to your peers, so how do you think about what is the level of margins you are comfortable with?

B.K. Bansal: We have not shared any such benchmarks for ourselves, we take the call on pricing and other things depending on the competition, market condition, etc., both are that way independent things and what we earn is the outcome of our various efforts on the business, so there are no such benchmark and by reducing the prices it really does not help us in gaining the markets because we are already at a discount, which is good enough to grow our market share.

Venkatesh Sanjeevi: Right, internally you are comfortable even if the margin goes beyond 35 or so?

B.K. Bansal: We should not be comfortable.

Venkatesh Sanjeevi: And then on dividend is there any change in thought process after the tax changes recently or what is your thought there?

B.K. Bansal: We had a good amount of cash and considering the current situation the board thought it appropriate to disburse it to this extent that is what I would like to say.

Venkatesh Sanjeevi: It has not been outcome of any, going forward with the dividend distribution tax changing would it have any impact on the way you distribute?

B.K. Bansal: As we said, our board will decide every quarter what is the base looking at the current quarter and the future and whatever is their decision they will decide and then they take it forward.

Venkatesh Sanjeevi: Thanks for that.

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

Siddhart Bera: Thanks for giving the opportunity. Sir, on the capex side I have few queries, what will be capex in the 9 months of this year?

B.K. Bansal: Around Rs. 600 Crores.

Siddhart Bera: Just trying to understand, if we get a double digit volume growth for the next two years, we will be touching more than 80% utilization level probably by FY22, so I just wanted to understand now with the Waluj getting shifted to a newer place, incrementally how much will be the cost to expand capacity you can just broadly give some numbers?

B.K. Bansal: Actually, it is very subjective and depends on the product mix and also, we have not put any thoughts so it is too early to comment on that, once we think or something we will share it via the board.

Siddhart Bera: Any ballpark number, say for every 10,000 or 20,000 tonnes?

B.K. Bansal: No, it all depends on where we go, what we are planning to do, so there are lot of things. At this stage to give any number it would not be a correct, we would not be close to anywhere, so please wait and we will share with you as we plan something.

Siddhart Bera: Sure, thanks a lot.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Thanks, Sir. Just couple of questions more, one if I look at 2 lakhs, 2.5 lakhs tonnes for ,whole year it will be roughly 60,000 in Q4 as such it will be all time high, so new things one should look at as a seasonally high number or it can be sustainable in FY21 going by the strong demand you are seeing?

B.K. Bansal: No, it is too early to comment on next year, as we said in the next quarter, eventually we will have more visibility, we will share with you, as of now what we can share is the number that we expect for this quarter and where we are, as you rightly put it back, we are talking about that, we will be close to 2,00,000 to 2,50,000 so for the next quarter we will come back to you in the next financial year.

Basudeb Banerjee: Sure, and the second question, as the previous person asked about the replacement cost of brownfield, but from paper stretch to once getting on stream, how much time gap will it be today for Brownfield expansion at boots?

B.K. Bansal: Brownfield at Bhuj would be 12 months to 18 months and Greenfield would be 18 to 24 months.

Basudeb Banerjee: Thanks.

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

Bharat Gianani: Thank you once again**.** You said the tax rate in this 9-month period was due to the write-back of deferred tax liability. So, what is the sustainable tax rate in FY21? Will it be 25% or will it be low?

B.K. Bansal: Yes, obviously 25 only.

Basudeb Banerjee: Thanks for the answer and all the best.

Moderator: Thank you very much. We will take that as a last question. I would now like to hand the conference back to management team for closing comments.

B.K. Bansal: Thank you, everybody for sparing your valuable time and joining our conference call and have a good evening.

Moderator: Thank you very much. On behalf of SBICAP Securities that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.