"Balkrishna Industries Limited Q4 FY2019 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Balkrishna Industries Limited Q4 FY2019 earnings conference call hosted by IIFL Capital. 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 call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Joseph George from IIFL Capital from IIFL Capital. Thank you and over to you Mr. George!

Joseph George: Thank you Bharat. Good afternoon everyone. On behalf of IIFL, I welcome you all to the 4Q results conference call of Balkrishna Industries. I also take this opportunity to welcome Mr. Rajiv Poddar, Joint Managing Director and Mr. B.K. Bansal, Director Finance. I request Mr. Bansal to make the opening remarks. The management remarks would be followed by Q&A. Over to you Sir!

B.K. Bansal: Thank you Joseph. Good afternoon everyone. I welcome you all to the Q4 earning call of our company. I am also joined by Mr. Rajiv Poddar and Mr. Shogun from SGA.

Let me begin with performance updates. The financial year 2019 was a challenging year for a global off-highway industry. Volatility in the demand across geographies, fluctuation in the raw material prices, more particularly crude derivatives and trade wars impacted the growth prospects. After a strong Q1, we saw a sudden sharp decline in offtake in the month September 2018 which continued until November. Fortunately, the trend stabilized from December 2018 and the same is continuing currently.

For the next year, industry sees lot of challenges and may witness degrowth or muted growth across categories; however, at BKT we remain optimistic on the long-term prospect of the industry particularly in the nonagricultural segment. Our efforts on all steel radial tyres, growing presence in India which is the fastest growing economy in the world and deeper penetration within the existing markets and OEMs, makes us confident about our outperformance. For financial year 2020, we are targeting to achieve a sales volume growth of around 3%-5%.

Let me now update you on the capex program of the company. First, I will talk about India capex. The capex for the carbon black plant is estimated at Rs.425 Crores. We are in the final stage of completing the first phase of 60,000 metric tons' capacity. We expect the full benefit to start flowing from second half of current financial year. The second phase of 80,000 metric tons' capacity will be commissioned by FY2021. All other capex project in India are progressing as per schedule.

As regards US project, there are no major updates as of today as we are still scouting for suitable locations.

I will now talk about the performance highlights. Our sales volume for the quarter was 55,388 metric tons showing a growth of 3% year-on-year. For the financial year 2019, the growth was 6% on basis at 211,261 metric tons.

Our standalone revenue for the quarter stood at Rs.1,354 Crores reflecting a growth of 4% year-on-year. This includes realized gain on foreign exchange pertaining to sales of Rs.3 Crores. For the financial year 2019, revenue stood at Rs.5,335 Crores showing a growth of 14% year-on-year and this includes realized gain on foreign exchange pertaining to sales of Rs.91 Crores.

On the EBITDA front, for the purpose of presentation, 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 standalone EBITDA for the quarter was at 336 Crores reflecting a margin of 24.8%. The margin decrease on QoQ basis was primarily on account of lower sales realization. We were also unable to unable to enjoy full positive of raw material prices owing to high cost inventory of previous quarter.

For the last financial year, EBITDA stood at Rs. 1,430 Crores registering a growth of 6% year-on-year with a margin of 26.8%. EBITDA margin in FY2019 was impacted by higher raw material prices along with higher spend of account of branding and advertisement etc., expenses to strengthen the BKT brand.

Other income for the quarter stood at Rs. 40 Crores which includes net gain on foreign exchange to the tune of Rs.18 Crores and other income from investment of Rs.22 Crores. For full financial year, the other income stood at Rs.214 Crores which includes net fain on foreign exchange to the tune of 128 Crores and other income from the investment of Rs.86 Crores.

Coming to next forex items, for the quarter we incurred a net forex gain of Rs.18 Crores which includes realized gain of Rs. 16 Crores and unrealized gain of Rs.2 Crores. For full year, the net forex gain stood at Rs.128 Crores which includes realized gain of Rs.118 Crores and unrealized gain of Rs. 10 Crores.

Profit after tax for the quarter was at Rs. 185 Crores showing de-growth of 5% year-on-year. For the full year profit after tax grew 6% to Rs. 782 Crores.

Our total capex for the financial year stood at Rs.757 Crores. We are zero long-term debt company. Our cash on cash equivalent were Rs.1138 Crores implying net cash position on the long-term side.

The Board of Directors have recommended final dividend of Rs.2 per share in addition to interim dividend of Rs.6 per equity share paid during 9 months of FY2019.

That is all from my side. I now leave the floor open for the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladiesand gentleman we will wait for a movement while the question queue assembles. The first question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity. First Sir on the demand outlook Sir is it possible to just elaborate slightly more on which segments you are seeing most of the challenges with an agri or geography wise? Is it in more in Europe and how is the trend in the first two months of this fiscal year?

B.K. Bansal: See the pain is I think across product categories and across geographies and this largely due to trade war, so it is impacting practically all the product categories.

Siddhartha Bera: In the last quarter or in Q4, the ASP decline of close to 4%. I mean once it is also due to some adverse product mix or I mean how is the pricing scenario you are seeing currently in this quarter?

B.K. Bansal: . Of course product mix is a regular phenomenon of our company, but it can be more attributed to some pricing action taken by us in view of declining raw material prices and considering the demand pressure.

Siddhartha Bera: So these things have been stabilized now or you further pressure in this quarter?

B.K. Bansal: I think pricing pressure will continue for some time because raw material prices are also coming down and the demand scenario is also not very strong.

Siddhartha Bera: Last question I had on the commodity price you indicate that there was some high cost inventory which got sold in the past quarter. But in terms of commodity prices if see synthetic rubber and natural rubber and fabric has seen some correction. So I mean how is the scenario now? Are we expecting some benefit to come from this quarter onwards on the commodity side?

B.K. Bansal: Of course. In fact it has already being reflected in the last quarter also if you simply compare the raw material consumption figure, it is showing the decline in the raw material prices, it is because of the high cost inventory, it did not fully reflect into the overall raw material cost, so that benefit as I said will definitely accrue to us and we may have to pass on something to our customers.

Siddhartha Bera: Okay. So the pricing action was how much and was it fully reflected and what it was taken in Q4, I mean was it fully reflected?

B.K. Bansal: I mean you know we have not taken pricing action across product category and across geographies. It has been on selective basis which has been given in the form of discounts.

Siddhartha Bera: Thanks a lot.

Moderator: Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati: Good evening and thank you for the opportunity. Can you just comment a bit more on the pricing action side? Did I understand correctly that you said there is still more room for pricing action that you may take going forward?

B.K. Bansal: Yes, if raw material prices come down and the pressure on demand continues we may have to take some pricing action.

Punit Gulati: Is competition also taking similar action?

B.K. Bansal: Yes.

Punit Gulati: How should one think about the EBITDA margin side. I mean I thought in Q3 you said that Q4 margin should come back to 28% but it still remained at 25% so where was the surprise?

B.K. Bansal: Surprise is basically the demand scenario does not look very promising, you know the macroenvironment across the globe, the trade war and other things, so all those things are putting lot of pressure on the demand side and in between if raw material prices come down and competition passes on to customers, we cannot be exception to that so considering all of this we see the EBITDA margin in the range of 25%-28%.

Punit Gulati: And is there more marketing expenses that you intent to incur for the coming year?

B.K. Bansal: No whatever we have undertaken, we will continue with that. We are not looking at any extra or incremental marketing expenses as of now.

Punit Gulati: Secondly on your guidance side, there is a 3%-5%. Can you give more color on how you arrived that number? Is it based on product by product or is it more like top down kind of guidance?

B.K. Bansal: I think it is more of a top down kind of guidance and I am sure you would have read the news item on Bloomberg, which came on Saturday wherein it stated that farmers in US are going for repairing of their tractors and in view of this, John Deere may see 20% reduction in the production. This is largely attributable to the trade war and moreover the wet weather condition in few geographies is also adding fuel to the fire, so all those things re casting shadow on the overall demand outlook of the industry.

Punit Gulati: But do not think it would be better for the tyre to get replaced rather them buying new?

B.K. Bansal: Yes that is why I said in my opening remarks that industry may witness degrowth whereas we are seeing a growth of 3%-5% and having said 3%-4% if does not mean that we will restrict to 3-5%. If we see opportunity, we can try to achieve a higher growth, this is something which is a realistic number we thought with you share with you people.

Punit Gulati: Okay. Fair enough, that is all from my side. Thank you so much.

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. Could you just provide me the breakup of volumes between Europe, US, RoW and India?

B.K. Bansal: In terms of percentage I can give for the Europe for the full year was around 50% to 51% and America's was around 17%, India was around 18% and balance was rest of the world.

Vimal Gohil: And so what about agri OTR.

B.K. Bansal: Yes. Agri would be around 61% for the full year and OTR will 36% and remaining 3%is ATV, lawn and garden.

Vimal Gohil: Sir what is the capex guidance for FY2020.

B.K. Bansal: It would be around Rs. 700 Crores.

Vimal Gohil: Sir what would be the approximate discount in your pricing and competitors pricing especially in the Europe and the US and the farm and other OTR segment?

B.K. Bansal: So overall the gap is around 10% to 15% between us and the peers. Now it varies from product to product, geography to geography. So this used to be very high historically.

Vimal Gohil: So in the medium term has this pricing reduces. How do you plan to differentiate yourself from peers and make sure that you continue to grow?

B.K. Bansal: You know that is why we are spending money on branding etc and this gap of 10%-15% is there for the last two to three years. we do not aim to reduce it further. We rather use it to gain the market share and that strategy is working well for us so we will continue with that.

Vimal Gohil: Thank you and all the best.

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

Ashutosh Tiwari: Sir how much volume we saw in India volumes in the full year?

B.K. Bansal: Full year it was around 18%.

Ashutosh Tiwari: That is the contribution I am asking about the growth?

B.K. Bansal: 17%.

Ashutosh Tiwari: Secondly in the ultra large mining radial tyres segment basically how much volume we are doing currently and what is a plan to take up that too or two years?

B.K. Bansal: In the current financial year we did have volume of around 75000 metric tons in the OTR segment.

Ashutosh Tiwari: Sir only the ultra large mining truck which is 48 inch plus?

B.K. Bansal: That is under testing phase. We do not have the exact breakup now.

Ashutosh Tiwari: Sir lastly, your employee cost had declined YOY and quarter-on-quarter as well, was any write off provisions made earlier?

B.K. Bansal: No write off. If you see the overall percentage on full year basis, there is no significant reduction. The last year it was 5.42% and this year it is 5.16%. In this quarter, it has again not been very significantly low. Such kind of variation is normal.

Vimal Gohil: So we should look at the yearly number?

B.K. Bansal: Yes. One should look at the yearly number.

Vimal Gohil: Thanks.

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

Basudeb Banerjee: Thanks Bansal Ji. Just wanted to understand as we are all used to understanding difference between billed volume and retail volume, if I see sequentially there has been a huge jump your reported billed volume, so any sense what could have been the ground level volume improvement sequentially or there is some raising inventory because of this speed jump in, sold volume from youe end?

B.K. Bansal: For us, billed volume and sales volume is same because it is not like consignment kind of sales. Whatever number we show it is actual sales from our side to our customers, so it becomes inventory of our customers. Now how much is left within his warehouse no one knows.

Basudeb Banerjee: Just trying to understand from the as you said possibly somewhere around 3% to 5% growth for the next year and if I see this year average quarterly tonnage is 52,800 if I add some 3% to that, that means 54000 what is doable according to you?

B.K. Bansal: See this is based on the various things. Now the demand outlook I have explained is challenging but that does not mean that we will stop making efforts. We will continue to make efforts from our end. We will try to outperform the guidance.

Basudeb Banerjee: Sure and any progress in terms of volume from Australian market where you are spending a lot in terms of branding activity?

B.K. Bansal: See these are all long-term kind of actions taken by us and the benefit of it will come to us over the long period of time.

Basudeb Banerjee: Last question Sir. As last time when we are discussing that bulk of this negativity in terms of demand off late has been because the heat wave and the drought in Europe, so that is transitioning to impact of trade war, so that heat wave and drought issue is largely over or that is still persisting.

Rajiv Poddar: Weather has been uncertain all over the world if you see, all over geography is having late winters over there. They just got their monsoon coming in now. If you see America, this is the one of the wettest periods. There is a lot of weather related issue which are going on. That is why we have been very realistic growth demand of 3% to 5%.

Basudeb Banerjee: And maybe very layman kind of question but if you can explain how the fear of trade war is impacting you supply to Europe currently?

B.K. Bansal: The trade war has created atmosphere of uncertainly, so everyone is going very cautiously and has become extra cautious. Spoiling sentiment in turn has spoiled the overall demand outlook.

Basudeb Banerjee: So even in non-US, markets as we can see on media, trade war is typically between US and China so the negative sentiment is spreading beyond those markets.

B.K. Bansal: Yes and indirectly you know who is impacted in what manner we do not know.

Basudeb Banerjee: So by what timeline do you expect normalcy to return?

B.K. Bansal: This is an open question for everyone including you.

Basudeb Banerjee: Thank you.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Reliance Nippon Life Insurance. Please go ahead.

Prateek Poddar: Sir just one question. Sir you talked about passing of the raw material to the end customer because of competitive pressure, that is a related question to that, the carbon black plant which was supposed to come up by July, the benefit that will, will you also pass that on for getting particular?

B.K. Bansal: No. That we will not pass it on, that will be purely retained by us. You know there is no direct correlation of reduction in the raw material price and pass on, it is an end result of so many factors, like raw material prices, demand outlook, competitive intensity and based on that we take a call, so as such it is discretionary. If we want to hold on our market share, we have to pass on. Otherwise, there is no compulsion as such on anybody whether to pass it on or not pass it on.

Prateek Poddar: Sir here our understanding was that this is a very price insensitive market and to sustain if we were able to reduce prices by 2%, volume growth would not spur at least that was my understanding that you could not get a lot of volume growth, so is that change or this is more because the entire industry has reduced sizes and because of which we have to match.

B.K. Bansal: Yes, I mean everyone reduces the price so you cannot be exception in the market place.

Prateek Poddar: Sure, sure. Just to understand historically have we done this, have we ever resorted to?

B.K. Bansal: Many times, we have done this.

Prateek Poddar: Which year would it be Sir, if I may?

B.K. Bansal: It was in a between 2013 and 2016 when raw material prices are continuously coming down. We have taken this kind of price action between 2010 and 2013 when raw material prices were increasing we had increased the prices also.

Prateek Poddar: Understood and assuming exchange rate rupee depreciates, would you look to pass that benefit on because historically we have retained the part of this?

B.K. Bansal: That we do not pass on, so as I explained there is no direct correlation between the benefit accruing to us on different counts and the pass on which we make to our customer. It is all up to the player how much he wants to be relevant in the given market condition or situation.

Prateek Poddar: Sir and largely what would have been a market share gain because I am sure agri would not have grown at the rate that you have grown, so just a ballpark, in Europe or some country, then Europe say the top five countries in Europe, has your market share further improve, is that?

B.K. Bansal: Yes. It is evident from the fact that industry is witnessing edgrowth and as I said John Deere may have to take 20% production cut and they are the best barometer of the industry, so from that you can make out that if they are taking of degrowth and we are talking of growth or even moderate number of 3%-5% that is a testimony of we gaining the market share.

Prateek Poddar: That is it Sir. Thank you so much.

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

Nishit Jalan: Sir just couple of things. On the capex side I think whatever your plan on US, Bhuj and Waluj and all if I add up with the replacement with the interest capex it adds to about Rs. 2800 Crores over a three-year period starting FY2019 and in FY2019 you have done about Rs. 700 odd Crores so does it means that you will be about Rs. 2000 Crores kind of capex in 2020-2021?

B.K. Bansal: Yes I mean including US yes definitely.

Nishit Jalan: Sir just wanted to understand in this quarter other than Europe and US, are you seeing some demand pressure on the Brazil, Australia and all those market because Rest of the World volumes also kind of seems to be been weak of late, so just wanted to understand which countries are contributing negatively on the Rest of the World market?

B.K. Bansal: I think overall the world is not very positive. If you look at Latin America, if you look at Middle East, if you look at Asia everywhere outlook is weak. Australia is holding up for the moment but other than that not so positive.

Nishit Jalan: Sir one last question, if we look at global player like Michelin who is a biggest player in the specialty tyre segment, they have also guided towards the 3%-5% kind of an industry growth and you are saying that industry will decline, so where is the difference. Are you looking at more agri segment and Michelin is more into OTR is this a gap because of that or you think that things will worsen further that is why you are trying to be more cautious?

Rajiv Poddar: I mean as we said it is an experiment that we were predicting the start of the year what will happen. What we can see is what we are forecasting and telling you, regarding our competitors I do not on what basis they are predicting but we are giving you a number that we see is fair.

Nishit Jalan: Thank you.

B.K. Bansal: Nishit, but once we read what Michelin has said, then we actually come and understand that what exactly and which segment they are referring to. I do not know when they say 3%-5% it is up in the full tyre industry because they are present in particularly in all the kind of tyres.

Nishit Jalan: Just to give you some sense. They are talking about specialty tyre industry to grow by 3%-5%.

B.K. Bansal: It includes air craft tyres within that.

Nishit Jalan: Correct, so within that they are talking about 4%-5% kind of a growth on the mining tyre side and slight growth in the agri segment which are more relevant segments for us in that sense?

B.K. Bansal: So that means we are also maintaining the same line of conversation because we never said that on the mining side, there can be any downturn on the immediate basis, what we are saying is that while considering the current business environment we see downside pressure on the demand and that may result into lower volume number.

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

Ronak Sarda: Sir what was the OE to replacement mix for the full year?

B.K. Bansal: OE for the full year is about 27% and replacement was 71%.

Ronak Sarda: Sir you highlighted RM is softening which is on the crude derivative side, so what was the price for full year and what is the current rate I mean what is the kind of softening are we seeing, if you can help with those numbers?

B.K. Bansal: Very difficult to actually quantify because those kind of prices are continuously changing so I can only give a directional view that raw material prices are softening because if the end product demand is not there so even the raw material market would also see impact in demand and in turn it will result into softening of the prices.

Ronak Sarda: Or if you can highlight how much are they down from the peak maybe last quarter when then peaked out? Carbon black or synthetic rubber?

B.K. Bansal: So carbon I think two months back was Rs.85 and now it is Rs.77 or Rs.78.

Ronak Sarda: Sir the other question was on the capex side. Do you foresee a situation where I mean how see the balance sheet maybe in next two to three years. We will need to take significant amount of debt?

B.K. Bansal: No. We do not have to borrow single penny to fund our announced capex. In fact, we will be borrowing a small amount and that that too from cost arbitrage point of view.

Ronak Sarda: Basically for the US capex, you might borrow in US.

B.K. Bansal: Yes. Even for India capex if we borrow it will be in foreign currency as we did during our last expansion in Bhuj where entire borrowing was in foreign currency.

Ronak Sarda: Sir just clarification when you say 25%-28% margin guidance are we lowering this from 28%-30% because of the demand environment or it is like more of a long-term?

B.K. Bansal: Again, I think I had clarified it many times that 28%-30% are not a very sustainable margin, many times I was asked then, I told that our sustainable margin range is 25%-28%. Sometimes things go in our favor and we end up earning more.

Ronak Sarda: Sure Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Candyfloss Advisor. Please go ahead.

Jeevan Patwa: I just have one question, so if you look at last 3 years yearly financial, so I am talking of a FY2017, FY2018 and FY2019, so the topline has grown from Rs.3800 Crores to somewhere around Rs.5200 Crores, but on the EPS side the earning per share side, the EPS has not actually grown much, so it has been only 4%-5% that I can see. So is it because of a margin such contract quite odd and we have done lot of capex and the utilization has been still low?

B.K. Bansal: No, in the last three years, we have not done any capex. The current capex which we are doing is I think it will hit balance sheet after two years when the depreciation will start coming in. basically three years back I remember in 2015-2016 we had registered EBITDA margin of 34% but that was one off event because raw material prices were very low, so it is not necessary that the PAT will always move in proportion to increase in the topline.

Jeevan Patwa: No that is correct but I am talking about FY2017, so in FY2017 our EPS was somewhere around Rs. 37 and now we are reporting some Rs. 40, so I am just wondering the margins has been down till in FY2017, you EBITDA margin was around 30% and now it has been down to 26% that what you are saying?

B.K. Bansal: You are referring to EBITDA margin or PAT margin?

Jeevan Patwa: EPS has grown from Rs.37.5 to Rs.40 in the last 3 years, FY2017 and FY2019 I am talking, but the revenue has grown by almost 35%?

B.K. Bansal: Yes, I explained you that not necessary that margin will continue to increase in the proportion to increase in the growth.

Jeevan Patwa: What kind of margin you think would be sustainable for the next 3-5 years?

B.K. Bansal: Yes 25%-28% is the visible margin.

Jeevan Patwa: What we will maintenance capex every year typically for the next 3-5 years?

B.K. Bansal: You know the number which we just now told it is inclusive of maintenance capex. Generally, maintenance capex is around Rs.250 Crores.

Jeevan Patwa: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Prashant Pawar from Newbury Capital. Please go ahead.

Prashant Pawar: Good afternoon. Thank you for taking my question. I have two questions, one is on the market share in the industry and agri segment and whether we continue to gain market share from our other global peers that was my question one? And second question is just wanted to get your understanding that we embarked on a capital capex cycle last year and we are seeing a little demand downturn as you have outlined so is there any rollback plan or do you see this demand outlook as short-term in nature or is it something structural?

B.K. Bansal: I will answer your questions. First, market share in agriculture would be around 8% and in the OTR it would be around 2%-2.5% and combined would be around 5%.

Prashant Pawar: Yes, are we gaining market share from the other global peers, we continue that?

B.K. Bansal: Yes we continue to do that and that is how we have grown and going forward also we will be outperforming the industry growth rate. Now coming to the capex, all the capex, which we announced last year were strategic in nature. It was not aimed to increase the capacity from the current level, so all those capex we aim to continue.

Prashant Pawar: I assume that the demand outlook that is outlined by you is related to short-term in nature and not structural?

B.K. Bansal: Yes. And secondly we are not adding any significant capacity. All the capex which we announced are strategic in nature. It has a specific vision and that is why we are doing it.

Prashant Pawar: Fair enough Sir. So just wanted to reconfirm the demand concern that we have is it structurally in nature or is it short-term in nature?

Rajiv Poddar: It is not like the residual stop or anything, it is a short-term. We are building capacities for long-term..

Prashant Pawar: Thank you.

Moderator: Thank you. We move to the next question which is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Thanks for the opportunity. I do not know if I missed this questions have been answered, what is the hedge rate that we have for the next year?

B.K. Bansal: For next year dollar would be at the spot and Euro would be around Rs.80.

Nishant Vass: In compared to last year's full year hedge?

B.K. Bansal: I think it will be more or less same.

Nishant Vass: On second question, sorry for coming back to margins, just trying to understand the thought process. Considering that obviously OTR as a mix is growing faster than Ag, obviously OTR margin mix is probably going to be better than Ag and the fact that OEM volume growth will be lower than replacement market which you highlighted earlier, plus we have carbon black backward integration from the cost side, so just wanted to understand are we being more conservative upfront on the margin or you are seeing a lot of competitive pressures even on replacement market side, which is making you conservative?

B.K. Bansal: No, there is nothing like conservative. I think this is the realistic number which we have always maintained that sustainable margin range is 25% to 28%, sometimes we gain or lock higher margin because of the time gap between the adjustment in the raw material prices and our pricing action. So, those are not very sustainable kind of things. Our sustainable margin range is always 25% to 28% and we always work to earn more and more whatever we can do within the given parameters.

Nishant Vass: Thank you Sir.

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

Siddhartha Bera: Thanks for taking my question again. Sir, just a small query on the capex front; you highlighted Rs. 700 Crores in FY2020, so if you can help me breakout into what will be going into which segment, that will be helpful?

B.K. Bansal: This is exclusive of USA project. You know this 700 is for all India capex, so partly it will be for carbon black, partly for Waluj project, partly for Bhuj project and also for maintenance capex across four plants.

Siddhartha Bera: So then given the fact that you have indicated that there will be no change in our three-year capex target of close to 28 billion, that means that FY2021 your capex...?

B.K. Bansal: Yes, so US we have not yet finalized so may be if it takes more time, then it will spill over to FY2022, particularly the US related capex.

Siddhartha Bera: Bhuj carbon black, how much have we completed till FY2019?

B.K. Bansal: First phase of 60,000 is by and large complete, we are in the process of giving finishing touch to it and we aim to complete it by end of this quarter

Siddhartha Bera: That includes the 700 Crores.

B.K. Bansal: Yes.

Siddhartha Bera: Just wanted to get a number that close to Rs. 100 Crores can come from the Bhuj carbon black capex probably, is that correct?

B.K. Bansal: No, see the total capex on carbon black is envisaged at around Rs. 425 Crores and for 60,000 MTPA the estimate is around Rs. 175 Crores, so balance, we have already incurred something which will happen in the next two years.

Siddhartha Bera: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sagar Naik from Purnartha Investments. Please go ahead.

Sagar Naik: I have two questions. The first one being what is your assessment on the impact of the withdrawal of GSP status of India?

B.K. Bansal: See, it is not very clear and let me throw some light on that. GSP is not applicable on agricultural tyres. It is applicable on non-agricultural tyres and if at all it is withdrawn, which is in the range of 3% to 4%, the impact on our margin would be hardly 0.2% to 0.25%.

Sagar Naik: The next one is on the capex front. So this capex which you are incurring for Waluj plant. So what would be the capacity that would be on the new plant?

B.K. Bansal: It is the same capacity, 30000 MTPA. We are actually shifting the plant from existing location to a new location.

Sagar Naik: Thank you.

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

Ankit Kanodia: Thank you for taking my question. In regards to the USA plant, we understand it is still early days, but just wanted to understand with Rs. 700 Crores of capex which you have highlighted, can you please give us a little colour on the revenues you would be expecting, what kind of revenue mix, I wanted to understand by having a manufacturing plant in US, will it also help us to stock more of our Indian made products in tires?

B.K. Bansal: Basically, USD 100 million is the permission which we have taken from the board, but based on our current study we estimate that the capex spend should not be more than $80 million and the revenue from that plant would be around Rs. 500 Crores to Rs. 550 Crores. Then the stock etc., you know, currently we are carrying some stock in our subsidiary which may not be required, then you know those requirements will be taken care from that plant.

Ankit Kanodia: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ronak Vora, an individual investor. Please go ahead.

Ronak Vora: Sir, are we facing any anti-dumping risk due to the trade off?

B.K. Bansal: No. See on anti-dumping front, I think we are pretty secured so long it is decided on merit, because the basic criteria for any anti-dumping petition is if you are selling your product below the cost price or below the home market price, then it amounts to dumping and you may be levied with anti-dumping. In our case, we are earning EBITDA margin of 26% to 27%, so there is no question of dumping the goods.

Ronak Vora: Thank you.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Thanks for the opportunity. Just wanted to clarify a bit on the consolidated accounts the capital work-in-progress is about 15 Crores more than what is in the standalone. Is there something being planned other than the US capex there, any warehouse or something like that?

B.K. Bansal: We are constructing a small warehouse in Italy currently, of course it is again on leased land, may be those expenses are on that count.

Puneet Gulati: Sir, capital work-in-progress, right Sir?

B.K. Bansal: Yes.

Puneet Gulati: Okay, you are building that one and what is the plan, what kind of inventory will you keep there?

B.K. Bansal: Yes. You know currently we have a leased warehouse and our office is at X place and the warehouse is at Y place. Fortunately where we have office, that landlord has offered the vacant space to us and we thought that it would be appropriate for us to have all the activities under one roof, so he has offered that land which of course will continue to be on lease, but on a long term lease, so we will be constructing a warehouse building over there.

Puneet Gulati: So, roughly the Rs. 35 Crores to Rs. 40 Crores of extra inventory that you keep will continue?

B.K. Bansal: No inventory will be the same. Inventory would be as per the requirement. Whatever the current inventory level we have, that would be maintained.

Puneet Gulati: So there is, as I see between consolidated inventory and standalone amount, I think Rs. 45 Crores of inventory?

B.K. Bansal: This is all US and Italy both put together.

Puneet Gulati: This is US and Italy both combined. No plan for adding anymore warehouse in US?

B.K. Bansal: No.

Puneet Gulati: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.

Prashant Kothari: Sure, the question is about the volume guidance that you have. I understand that the near term is soft, but would you be able to give us some more may be medium to long term picture on how do you see the volumes growing like you have any three to five-year kind of volume target in mind?

B.K. Bansal: So, in a normalized business environment, we have always said that we aim to grow between 12% and 15%. In a tough business environment like the current one, I think it will be somewhere between 3% and 5%.

Prashant Kothari: Is it that because you have grown over the years, it has become more difficult to grow to just gaining market share and the market moves are having an impact on how much you can grow?

B.K. Bansal: I do not think so because still we are only at 5% of the global market and if you further break it up, within OTR segment, our market share is hardly 2%. So, that way we have a lot of room to grow.

Prashant Kothari: How many SKUs you would have added in the last one year; how many are you planning to add in the future?

B.K. Bansal: Almost 100 SKU every year we add, so currently we have around 2700 SKUs.

Prashant Kothari: Okay and the last question is around the OTR segment. Is that also as weak as Agri?

B.K. Bansal: No it is not as weak as agri, as of now, it is in good condition but the way the things are going, pressures may come, because it may lead to softness in the commodity prices, which we have already started witnessing and if that continues, then it will impact the mining and construction activities across the globe.

Prashant Kothari: Okay and your guidance would include that assumption is it?

B.K. Bansal: Yes, of course.

Venkatesh Sanjeevi: Just one or two questions from me. The carbon black unit which is coming up, how much would that benefit the overall margins?

B.K. Bansal: At full capacity, it will add around 100 basis points. At the current capacity, I think it will add another 50 to 60 basis points in the margin.

Venkatesh Sanjeevi: And the full capacity is likely in FY2021?

B.K. Bansal: FY2021, yes.

Venkatesh Sanjeevi: India business, you said it grew about 17% for FY2019?

B.K. Bansal: Yes.

Venkatesh Sanjeevi: So what is contributing to this growth, which segment?

B.K. Bansal: Because our market share is very low, in the agriculture segment, we entered very late, so that way there is a lot of scope to grow.

Venkatesh Sanjeevi: How much will be the market share in India?

B.K. Bansal: We do not know because those kind of data points are not available, but like in agri we started just three years back, so there is a lot of scope to grow over here.

Venkatesh Sanjeevi: So you think India can grow at these levels in the next few years as well?

B.K. Bansal: Yes, at least if the demand environment is very tough, then may be 10% to 15%.

Venkatesh Sanjeevi: Right and India is around 17% to 18% of your overall business?

B.K. Bansal: Yes

Venkatesh Sanjeevi: So from what you are saying, for FY2020, most of the growth guidance could be from India alone is it?

B.K. Bansal: No, see it is very difficult to predict the geography wise growth. We have given you the guidance for the full company. Now how much will come from which geography will be very difficult to predict.

Venkatesh Sanjeevi: Thanks.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.

Kamlesh Kotak: Good evening Sir. Just wanted to understand, you mentioned about hedge, could you just repeat the same, how the hedge of Euro and US?

B.K. Bansal: Our hedge is always in the Euro currency, because in the dollar we enjoy natural hedge, so for Euro the last year average was around Rs. 79 to Rs. 80 and this year also it is expected to be in the same range.

Kamlesh Kotak: Okay, how much of our imports are coming from Euro and US, any colour on that?

B.K. Bansal: Mostly, all imports are in dollar currency, that is why I said we enjoy natural hedge in dollar currency.

Kamlesh Kotak: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constrains, this would be the last question for today. I would like to hand the conference over to Mr. Joseph George for closing comments.

Joseph George: Thank you Bharat. On behalf of IIFL, I thank the management of Balkrishna Industries for taking out time for this call. I also thank everyone for dialing in. Have a good day.

B.K. Bansal: Thank you.

Moderator: Thank you. On behalf of IIFL Capital, that concludes this conference. Thank you for joining us and you may now disconnect your line.