“Balkrishna Industries Limited
Q4 FY '23 Earnings Conference Call”
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MODERATOR: **MR. MAYUR MILAK – ASIAN MARKET SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Balkrishna Industries Limited Q4 FY '23 Earnings Conference Call Hosted by Asian Markets Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etcetera, whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note, this conference call is being recorded.

I now hand the conference over to Mr. Mayur Milak from Asian Market Securities Limited. Thank you and over to you, sir.

Mayur Milak: Hi. On behalf of Asian Markets Securities, we welcome you all to the Q4 FY '23 post call of Balkrishna Industries. I'll take this opportunity to welcome the senior management team of Balkrishna. We have Mr. Rajiv Poddar, Joint Managing Director and other senior team members with us. I would like to invite Mr. Rajiv Poddar for his opening remarks and then a Q&A session.

Over to you, sir.

Rajiv Poddar: Thank you, Mayur. Good morning, everyone, and thank you for joining us today. Along with me, I have Mr. Bajaj, Senior President, Commercial and CFO; Mr. Ravi Joshi, Deputy CFO; Mr. Sushil Mishra, Head Accounts; and SGA, our Investor Relations advisor. Let me begin with performance updates. Q4 Financial Year '23 has been a better quarter from a sequential point of view. We witnessed an uptick in volumes, better demand from our end markets, and partial clearing of our high-priced raw materials. However, end markets, especially channel inventory situation, is not completely out of the woods.

We believe this channel inventory led issues may be resolved by June or July. We were able to clock 72,676 metric tons in Q4 of the financial year '23, which is 9% Q-on-Q growth and accordingly ended the year with 301,181 metric tons, a marginal growth of 4% over the financial year '22.

In Q4, the EBITDA margin is at 21.3%, which has improved sequentially. This has been due to better absorption of high-cost raw material inventory that we were carrying in the system and lower freight costs. We have continued to make higher spending in brand building and marketing initiatives, which slightly impacted margins. Excluding these investments,, we would have been slightly higher in Q4. In view of our long-term strategy of increasing market share, these investments are required to be made as we move ahead to achieve our aspiration of 10% market share over the next few years. As sales volume increases, these spends, as a percentage of sales, will come down.

For financial year '24, we remain positive. We believe that we would be in a better position to discuss our volume guidance in the next few months. On the margin front, multiple levers such as favourable raw material costs, better hedge rates, and complete normalization of logistic costs, will aid the improvement in margin profile. In terms of end markets, we expect Europe to normalize later during the year, while America and India will continue its FY '23 performance trajectory.

Let me now update you on the capex. The advanced Carbon Black project of 30,000 metric tons per annum is running delayed, and we expect the same to be completed in H2. The capex for the brownfield capacity addition of 25,000 metric tons per annum at Waluj has been completed. Full ramp up of production will reach over a period of 6 months. Now the Waluj location has a total capacity of 55,000 metric tons per annum.

Further, at the company level, our achievable capacity stands back at the original 360,000 metric tons per annum. For the financial year '24, we estimate a capex spend of INR550 crores to INR600 crores. Of this, routine maintenance capex will be INR250 crores to INR300 crores. The balance will be spent towards new product development like rubber tracks and giant solid tyres. This will help us widen our product basket in the end market along with higher investments in brand building and marketing efforts, which are required to reach our market share goal of 10%.

With this, I now move on to the operational highlights.

Our standalone revenue for the quarter stood at INR2,325 crores, a degrowth of 4% year on year, which includes realized gain of foreign exchange pertaining to the sales of INR7 crores. For financial year '23, the revenue stood at INR10,072 crores, which includes realized gain of foreign exchange pertaining to the sales of INR262 crores. We have crossed the historical mark of INR10,000 crores sales for the first time in our history.

For the financial year '23, 51% of sales came from Europe, 22% from India, 18% from America, and the rest of the world. In terms of channel contribution, 69% was contributed from the Replacement segment, while OEM contributed to 28%, and the balance coming from uptake. In terms of category, Agricultural segment contributed to 63%, while OTR, Industrial and Construction contributed to 34%, and the balance came from other segments. The standalone EBITDA for the quarter was at INR494 crores with a margin of 21.3%. Financial year '23 EBITDA was reported at INR2,028 crores translating to a margin of 20.1% and a drop of 7% year on year on year basis.

Other income for the quarter stood at INR28 crores, while unrealized gain stood at INR3 crores. Other income for the financial year stood at INR114 crores, while unrealized loss stood at INR88 crores. Coming to the net forex items for the quarter. We had a net forex gain of INR26 crores, which includes realized gain of INR23 crores and an unrealized gain of INR3 crores.

For financial year '23, we had net forex gain of INR224 crores, which includes realized gain of INR313 crores and an unrealized loss of INR88 crores. Profit after tax stood for the quarter at INR256 crores, while for the financial year it stood INR1,079 crores. Our gross debt stood at

INR3,254 crores at the end of 31st March '23, of which about 75% relates to working capital debt. Our cash and cash equivalents are at INR2,075 crores.

For Q4 financial year '23, the euro hedge rate was 86.50, while for financial year it was 85.30. Forward hedge rates for financial year '24 currently stand at around 88 to 89 levels. The Board of Directors have declared a final dividend of INR4 per share, subject to shareholders' approval in the AGM. This is in addition to the earlier interim dividends of INR12 per share paid over the 9 months of the last financial year.

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

Moderator: Thank you. We'll take our first question from line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, on the destocking front, you mentioned that probably by June or July destocking will get completed. So can you share some like what were the retail sales in quarter versus the reported number INR72,700 odd?

Rajiv Poddar: We don't have those details.

Ashutosh Tiwari: Is it like destocking had a large impact on volumes or it was not very high impact in this quarter, per se?

Rajiv Poddar: It's higher than our sales. As we've been saying that there is some clearing happening. We can share But not the numbers.

Ashutosh Tiwari: Okay. And you mentioned that Europe will probably recover a bit later during '24, but America and India are going to do well, but even American volumes have come off quite sharply in the second half versus the first half, so this weakness seems to be across in Europe and USA, at least in the second half of last year.

Rajiv Poddar: It's a seasonal thing. In America, the seasonal impact, which is coming. We are quite confident that, as of today, America should continue its growth trajectory. So we don't see any problem with that.

Ashutosh Tiwari: And lastly, what is the gross debt level?

Rajiv Poddar: Around INR3,200.

Moderator: We take our next question from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, again, first question on the volume side, in the current quarter, we are already close to like 2 months. So given the channel destocking which you are seeing, shall we start expecting some volume growth coming from Q1, or do you think it may take longer for volumes to come back?

Rajiv Poddar: As I had said in my opening speech, we see some clearance happening from June, July, so that is what we can say at this moment.

Siddhartha Bera: Okay. And in the quarter, ASPs also have come down by about 4%. So can you just indicate if this is largely of rate pass-through or something else is also leading to lower ASPs? And should we accept more correction going ahead or this is largely behind for now?

Rajiv Poddar: So it's a combination of of product mix and the lower freight cost that has passed through.

Siddhartha Bera: Okay. So is this largely normal now or should we expect more correction in the coming quarters?

Rajiv Poddar: Some minor correction could come in.

Siddhartha Bera: Okay, got it. on the volume side, sir, if you look at India volume, they have grown quite well in this year at 28% if I see. And this quarter also the growth has been quite strong. Can you just indicate what is driving this because industry has not been growing and the factors are in the direction of the outlook is not very encouraging. So some indications on what is driving this and is there any change in market share or the product side, which you can indicate?

Rajiv Poddar: So it's a mix of everything. So product acceptability, and product performance in the marketplace, as well as we are growing faster than the market, so we are taking market share as well. So also the branding that we are doing for the Indian market is having the brand -- creating a good brand recall, so all the benefits that we've been talking about are now playing out in the marketplace, so it's a mix of all these factors coming together.

Siddhartha Bera: Any particular segment which is coming through this, Agri, OTR, or it's all?

Rajiv Poddar: Both the products are all over India. Both the product lines are doing well.

Siddhartha Bera: Okay. So you expect some of these volume growth to continue even in the current year?

Rajiv Poddar: Yes, we expect it to continue.

Moderator: We take the next question from the line of Mumuksh Mandlesha from Anand Rathi.

Mumuksh Mandlesha: Sir, what is your expectation in terms of RM cost reduction for next quarter?

Mr. Bajaj So it will be around 1% to 2%.

Mumuksh Mandlesha: And sir, mainly the most of the lower input cost will be passed through --- the benefit will come in Q1 itself?

Rajiv Poddar: We may have to pass. So basically if you see what we mentioned for the whole year, we will see some improvement in the margins for the whole year. Could be in the range of 200 to 300 basis points, but that will be for the whole year, not in this quarter.

Mumuksh Mandlesha: Got it. Sir, in India business, just wanted to come back. Do you expect the double digits in the volumes to continue for FY '24?

Rajiv Poddar: We can't comment on the future, what's going to happen. It looks, as we mentioned, is that we expect the growth trajectory to continue, but difficult to put a number to it.

Mumuksh Mandlesha: Got it. And sir, what would be the inventory level at the distributor end now?

Rajiv Poddar: We don't have the number, but we see that it is improving. So it is reducing.

Moderator: We take our next question from the line of Pramod Amthe from Incred Capital.

Pramod Amthe: First question is with regards to your interest costs, it seems to be going up pretty steeply to our last quarter Q2 was INR15 crores, it has gone to INR25 crores. Can you give more colour what is happening there?

Mr. Bajaj: Because the EURIBOR rate has gone up, whatever PCFC we are taking, that rate had gone up. So once it had start reacting then only it will come down, otherwise it will stay in the same range.

Pramod Amthe: So your rates are what now, 5%, 7% on that? What is the current rate?

Mr. Bajaj: It is around 4% approximately.

Pramod Amthe: So if I had to look at assuming your gross debt is almost around INR3,000 crores plus. So, as you said, 75% is there. So is it peaking out or do you still feel there is room to go up an absolute number before it peaks out? And also, secondly, do you capitalize any of your interest costs for the capex? And when that will come through P&L?

Rajiv Poddar: So as far as the number of the gross debt, number wise, it will come down in this financial year. We are working towards that.

Pramod Amthe: And I was asking on the interest costs, if it's absolute wise it's very difficult to project from a INR15 crores to INR25 crores, right? So where will we go from 25 crs to where and when it will come down?

Rajiv Poddar: Very difficult to say where it will end up the actual number, no? But if the number comes down, the rates remaining same, it will come down. But if the EURIBOR goes up then it may stay at this level. But on a gross level, the debt will -- you will see a debt reduction.

Pramod Amthe: Let me put it other way. Do you capitalize any of the capex-related interest costs and how much it was for FY ' '23?

Rajiv Poddar: Very small portion goes to capitalization. Otherwise most of it goes to P&L.

Pramod Amthe: Okay. And the last question is in terms of the end market pricing behaviour, because raw material cost has been benign for all the players. Do you see the manufacturer passing it on to the end consumer? Is there any different which time to pass it on to the consumer or it's again a fight for pricing?

Rajiv Poddar: So here also we are reviewing the situation very closely. If the need arises, we will also have to pass on some of that reduction. We are trying and seeing in the market's best interest and how we retain our market share. So we are reacting to that.

Moderator: We'll take our next question from the line of Ankit Kanodia from Smart Sync Services.

Ankit Kanodia: So my first question is related to the margins. So if we look at the quarterly numbers in the last year, from March 2022, it was 21%, and then Q-on-Q it's kept on decreasing for reasons we know, and it has now come back to 21%. And when we're saying that Europe will probably comeback later in the coming year, so is it right to assume that probably margin will see a big bump-up in the second half and will continue to maintain kind of margin in the first half as well, that is 21%, 22% margin?

Rajiv Poddar: So as I mentioned earlier during 1 of the answers that we are seeing for the whole year improvement in margins ranging from 200 to 300 basis points and bulk of it will come towards the end of the year. So you're right. You should see some bump in the second half.

Ankit Kanodia: For my next question, as you know that the difference between the price at which we sell our tyres compared to our European counterparts is decreasing over the years. So it was somewhere around 50% 15 years back. Now it is about 10% to 15%. So do we see any other players, new players coming in with that kind of a price differential with our competitors, or our main competition continues to be the European and American counterparts?

Rajiv Poddar: We are playing in the market which is basically quality driven, and we are competing against the quality players. So price is not our game, so we are not looking at that. We are looking at the top players whose quality is at par with us. So the range is also important.

Moderator: We'll take our next question from the line of Nishit Jalan from Axis Capital.

Nishit Jalan: Two questions from my side. Number 1, we do have a very high gross debt of about INR3,200 crores, but at the same time we have INR2,000 crores cash also. That's something we have maintained in the past also. But now the debt levels have gone up and cash has also gone up. So any thoughts around that whether you want to use some of the cash to pay off debt? That is 1.

Second question is just wanted to understand what is the raw material policy of the company? Typically, what kind of inventory do you carry for rubber and crude derivatives? I'm asking because this time around, we have seen a significant lag in realizing the actual benefit of RM cost. I think more is yet to come. It's already been 2, 3 quarters. So did you have a very disproportionate inventory compared to what you typically keep? More colour on this would be helpful.

Rajiv Poddar: So on the raw material, typically, we would keep between 45 and 60 days of stock, but the lag was longer than expected because all of a sudden the market saw a correction, so we were planning at higher levels. And if you saw the numbers in the last 2 quarters, they have dipped significantly from the Q2 and Q1. So that had an impact on this. Also, the lead times were long and all of a sudden the shipping times got cut, so we had to plan for both of them and that's why the lead time, what was being ordered for future, came in a little earlier. So that's why we had a longer lag.

Nishit Jalan: Okay. The debt one?

Rajiv Poddar: No, we are not looking to use the cash for repaying, but we will be looking at that for expansion purposes.

Nishit Jalan: But Mr. Poddar, your net debt levels will come down, right? You will generate enough cash flow to internally meet your capex requirement. So if your net debt is coming down, why not think about using those cash and paying of the debt and not taking the currency risk or anything of that sort?

Rajiv Poddar: It's a continuous process which we will be reducing, and besides using this, we want to keep this in case if any opportunity arises or something, so it's a good cushion to have in the balance sheet for any acquisition opportunity or anything that can come up. So we are anyway being able to reduce the debt without that. So we don't envisage to use this money for that.

Nishit Jalan: Okay, got it. Just 1 follow up. You just mentioned about acquisition or anything. Is there any -- historically you have talked about that you don't want to set up any plant overseas. Or do you think there is any reason or anything you may look to acquire in India because you have the largest capacity. There is no other company which is even closest to you. So what would be the thought on acquisition, if at all you plan to do it at any point of time in future?

Rajiv Poddar: So you caught on to my word. But what I was trying to say, we don't intend to set up a plant overseas right now. We don't have that in the near future. I was saying that if an opportunity comes up, we are keeping it so that we are actively looking for an opportunity to acquire anybody or there is something in the marketplace. But you never know - you always plan ahead and keep, so you're not running on that day when an opportunity comes up. So I think that is what is important. Don't look at it that we are looking at an opportunity or we are examining something. There is nothing actively there. I said we are planning to keep as a backup in case that opportunity comes someday. Also, in addition to that, 1 part is of acquisition or potential opportunity, the other is also in-house expansion, since we do large expansions. So we plan and keep for that part as well.

Moderator: We'll take next question from the line of Abhishek Jain from Dolat Capital.

Abhishek Jain: Sir, what is the current retail demand trend in the European agriculture market and U.S. OTR market?

Rajiv Poddar: So it's better than our wholesale sales currently in both the sectors. So that is a good sign for us.

Abhishek Jain: And what is the normal inventory in first half of calendar year and how much it is higher than the normal?

Rajiv Poddar: It is higher than what they normally would have kept, but as I said, it is reducing. It is on a downward trajectory, so we feel that in the coming quarters, we will be able to give you some guidance.

Abhishek Jain: And how is the competitive intensity? Are other players like Alliant or Yokohama. Now it's quite aggressive on the pricing front. So do you have any pricing pressure right now on your product?

Rajiv Poddar: No, we are pursuing our own strategy, so we are working on that.

Abhishek Jain: My last question on the capex is the mention of the plant. So how much benefit will flow in the EBITDA in the coming days because of this?

Rajiv Poddar: So we will see some improvements come in once the full volumes are back in place.

Moderator: We'll take next question from the line of Yash Agarwal from IIFL Securities.

Yash Agarwal: Just 1 question. How should we look at opex, excluding freight, as a percentage of revenue? In 3Q it was at 16% and in 4Q it was at 19%.

Rajiv Poddar: Yes, you will see some volatility. As I mentioned in my speech, it is because of the branding exercises that we are intensifying to further reach to the end users and use this opportunity to get the brand name more popular in the end user space.

Moderator: We'll take our next question from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: My question is in the India business, if you can give some sense over the last few years have the margins been any different from the export business?

Rajiv Poddar: No, they're similar margins to export business.

Lokesh Manik: Okay. And our material cost would also involve the inward rates, that is the import from China and other countries, so the raw material would be inclusive of that, right?

Rajiv Poddar: Inclusive of that.

Moderator: Next question from the line of Basudeb Banerjee from ICICI Securities.

Basudeb Banerjee: Yes. So 3 questions. One, as you had mentioned, retails have been better than wholesale. Just to understand some of the additional perspectives, the quantum of destocking for you, compared to last quarter, this quarter was similar, higher, or lower, because seasonally Q4 is better quarter, so retail should have been on an absolute basis better Q-o-Q. So just to understand whether the increasing volume was more led by retail jumping more or lesser destocking just to understand from that angle?

Rajiv Poddar: Mix of both.

Basudeb Banerjee: And destocking compared to last quarter?

Rajiv Poddar: Yes.

Basudeb Banerjee: Quantum was similar compared to last quarter?

Rajiv Poddar: So the destocking in the current quarter because the sales has gone up a little bit, so the destocking amount may have come down marginally, but more or less it is the same quantum as last year.

Basudeb Banerjee: So same quarter as in Q3.

Rajiv Poddar: Yes.

Basudeb Banerjee: Second question, sir, if I look at your quarterly realizations, it used to be roughly to INR260 for a long time. And then with raw mat inflation and logistics cost inflation, it moved up to as high as INR350. With the surcharge container costs removed, it's down towards INR320. So how do you look at where 1 should look as a steady state realization looking at your product mix?

Mr. Bajaj: Come down. It is difficult to give the numbers and what numbers will be, but slowly, it will come down.

Basudeb Banerjee: They will come down towards INR260 levels or...?

Mr. Bajaj: Not that level. It may be INR300 or somewhere near to that.

Basudeb Banerjee: Sure. And third question is, sir, how much was your brand marketing expenses in FY '23 versus FY '22?

Rajiv Poddar: We don't have those numbers readily. We will come back to you.

Moderator: We'll take your next question from the line of Raghunandhan from Nuvama Wealth Management.

Raghunandhan: So my first question was on the demand side. The expectations for Agri production in Europe and the U.S. indicate that production should be better in CY '23 versus '22. Ideally, that should help the sentiments on Agri side. So what are your expectations as to how directionally the demand could improve on the replacement market side over the next few quarters?

Rajiv Poddar: It's too early to say, but we are expecting better second half. As we mentioned earlier that Europe will improve in the second half of this year. So we hope that that will play out.

Raghunandhan: Got it, sir. And the destocking which is likely to be completed or resolved by June-July, would the inventory level have reached around 2 months by then?

Rajiv Poddar: Yes, it should do.

Raghunandhan: And lastly, just a clarification. The capex of INR600 crores for FY '24 would be total capex, right, growth plus maintenance?

Rajiv Poddar: Yes..

Moderator: We'll take the next question from the line of Arvind Sharma from Citi.

Arvind Sharma: Sir, it's more on the capacity part. Right now, at 360,000, what would your market share be? If it is at 5% to 6%, then going to 10% market share essentially requires a big increase in capacity, assuming the industry remains at a similar level.

Rajiv Poddar: I mentioned earlier in my discussion that in case of a big expansion which we need to plan, the cash and cash equivalents are being kept for an opportunity to get that expansion going. So you're absolutely right that we will require a big expansion.

Arvind Sharma: Sir, any timeline for that 10% market share, any rough timeline if you could share?

Rajiv Poddar: We're targeting 4 to 5 years.

Moderator: We'll take our next question from the line of says Saif Sohrab Gujar from ICICI Prudential AMC.

Saif Gujar: So the first question is on the hedge rate. As you talked about forward hedge rate being currently at 88. For FY '23 and 4Q, how much would be the average hedge rate and what proportion was hedged?

Mr. Bajaj: Q3, you are asking for Q3?`

Saif Gujar: 4Q and entire FY '23, what would be the average hedge rate and going forward, it would be 88 what you told.

Mr. Bajaj: For the entire year it was 85.3. For the last quarter it was 86.5, and for financial year '24, it is around 88, 89.

Saif Gujar: And how much proportion? I understand we have a rolling forward hedge rate, so what portion we would be hedging currently?

Mr. Bajaj: We are targeting 8 to 10 months, so 80% is already hedged for '24 around 88, 89.

Saif Gujar: Sir, my second question would be on the branding. So we have been very proactive in advertisement, branding, and all. So what would be the advertisement expenses for FY '23 and as compared to FY '22?

Rajiv Poddar: I don't have the exact breakup. We can get back to you later.

Moderator: We'll take our next question from the line of Disha Sheth from Anvil Shares.

Disha Sheth: Yes, sure. So you mentioned an improvement of margin around 200 to 300 basis points. Sir, that is compared to Q4 FY '23 or the full year FY '23?

Mr. Bajaj: So it will be on the last quarter, 200 basis points to 3% for whole of the year.

Disha Sheth: Whole of the year. Okay. And sir, when we mention the 10% market share, I'm just confirming, our current market share is around 5%. Correct?

Rajiv Poddar: 5%, yes, about 5%.

Disha Sheth: Okay. And sir, how much capacity would we need addition and how much cash will you need for the increase over the next 4 to 5 years?

Rajiv Poddar: We are working on that. I don't have the numbers right now. It's on the drawing board. We'll come back with an announcement when we are ready.

Disha Sheth: Okay. And sir, just a last question. Current inventory days are how much?

Rajiv Poddar: Around 45 days.

Disha Sheth: 45. Sir, in June-July you expect that to become 30 days.

Rajiv Poddar: We'd like to keep it at this level. Around 40, 42 days maybe.

Disha Sheth: Okay. And historically also we have been around this level, right?

Rajiv Poddar: Yes.

Moderator: Thank you. We'll take the next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, on this next phase of capex, or the capacity expansion that we'll do from beyond 360,000. Can that be taken up at Bhuj or there's no room over there and you need to plan a greenfield only.

Rajiv Poddar: No, we have ample room there. So we can take it up over there.

Ashutosh Tiwari: And how much capacity can be added in say Bhuj?

Rajiv Poddar: A substantial amount.

Ashutosh Tiwari: Okay. And generally, if you plan expansion today, how much time do you take for the plant to come up?

Rajiv Poddar: So brownfield can be done between 15 and 20 months.

Ashutosh Tiwari: Okay, 15, 20 months. Okay. And secondly, how is the progress on the mining side and on the ultra large tyres? We entered the segment around 4, 5 years back. So what kind of volumes we're doing over there right now?

Rajiv Poddar: I don't have the breakup of the volumes exactly, but we are getting a good response. Our tests have been conducted, results have been good, and now it's become a regular sales feature. So that is going on as a regular product. So it's picking up well. All over the world we've got good response for it.

Ashutosh Tiwari: What is the capacity of this ultra large mining tyre right now with us?

Rajiv Poddar: Around 5,000 tons for the whole annum.

Moderator: We'll take our next question from the line of Pragya Shah from Concept Investwell.

Moderator: , We'll take our next question from the line of Mumuksh Mandlesha: from Anand Rathi.

Mumuksh Mandlesha: Sir, what was your Carbon Black sales to third party in FY '23?

Mr. Bajaj: Approximately 6%.

Mumuksh Mandlesha: 6% revenue for full year, right. And what would be the utilization of this Carbon Black plant in FY '23, sir?

Rajiv Poddar: 85% to. 90%.

Moderator: Thank you. We'll take our next question from the line of Mayur Milak from Asian Markets Securities. Please go ahead.

Mayur Milak: So just trying to understand the European situation. So we believe there was some news that Chinese tyres were supposed to come back and then there is again this news that there will be some COVID situation in and around. So just wanted to understand what is the real situation in Europe. Are the Chinese competitors back or we still get this advantage of using that market for a longer duration than what we had earlier anticipated?

Rajiv Poddar: As of now we are not facing much of a competition from Chinese brands because market sizes have -- it's not a very big size of like a passenger car or truck bus. So that is where it is.

Mayur Milak: And typically with all this correction in trade and everything, what would be your typical difference of the offering, selling price difference between you and your closest Chinese counterparts?

Rajiv Poddar: We don't have their pricing because there's no fixed pricing for them, so it's difficult to give you an answer. And we always try and benchmark against the top-quality European players. So that's what we are aiming to get to.

Mayur Milak: Right. So just to put it the other way around. So just trying to understand, the general understanding was the difference is about between 12% and 15%. So is it safe to assume that that would kind of continue even now?

Rajiv Poddar: Yes. If you see the branding exercises we've been doing has got us down from a gap of about 40-odd percent to gap of 15%. So it's a lot of effort and hard work done over the years. So we would like to maintain that.

Moderator: We'll take our next question from the line of Sunil Shah from Turtle Star. Mr. Shah,

Sunil Shah: My question is an extension of the previous question. Sir, the pricing differential that we have versus our European competition, so if I look at our company over the last many years, our prime advantage was more on the labour cost advantage, that is our labour cost was reasonably less than the global competition.

Now with increased automation that we're doing in our companies, power cost is certainly going to be 1 variable cost, which will be a significant part going forward. To maintain that advantage, what are we doing on the power cost front so that our edge remains over our global competition? Historically, I believe just the labour advantage had given us a cost advantage of more than 20%.

But with automation, power cost will be certainly a bigger factor. So are we doing anything on that power cost front to reduce and have an edge over the global competition? Because once we had an aspiration of 28% to 30% operating margin, we are now in that 21% mark. And obviously, due to many reasons that we know in the last few years. But on the power front, c ould you just let us know anything we are doing there to gain some advantage?

Mr. Bajaj: So that why this our carbon plant came because it is our self-consumption, as well as whatever the tail gases are produced, that we convert into the power, so it reduces the power cost.

Sunil Shah: So any differential in cost that we'll attain over a period of time in power itself, percentage differential versus just labour...

Mr. Bajaj Self-consumption, but definitely, we are saving huge cost.

Sunil Shah: Okay. And sir, once upon a time used to be a debt-free company. Now we are net debt of INR1,200 crores. So with just about 300 bps increase in our margins, when will we regain that earlier phase of being a debt-free company, meaning we will continue to have a debt in our books as well, as you mentioned?

Rajiv Poddar: As I mentioned, the gross debt will continue to go down and have an impact, but we are working towards being a net debt free company. So hopefully, we should be there in about 15 to 18 months, subject to no major expansion getting announced before that.

Moderator: We'll take our next question from the line of Chirag Maroo from Keynote Capital.

Chirag Maroo: Sir, as you said, our overall market share is about 5% approximately. Will it be possible for you to provide a bifurcation between how much market share we have in agriculture and OTR?

Rajiv Poddar: No, we can't give the bifurcation.

Chirag Maroo: Okay. And second, I wanted to understand what is our strategy or initiative towards increasing our market share in OTR tyres at this moment.

Rajiv Poddar: So if you see, we've been constantly increasing the sales in the OTR segment, and the growths are coming in higher. So whatever we are doing, working towards, is now paying off in the marketplace. So that is what we have been working for the last 3 to 4 years. And you can see the numbers constantly increasing.

Chirag Maroo: Are we doing any R&D spend related to OTR, at this moment, as a product company?

Rajiv Poddar: That is a part and parcel, so that goes on for all the product lines that we are in. It's not just for OTR or it's not just for Agri. It is being done across the product basket that we make.

Chirag Maroo: Okay. Sir, I just wanted to understand if any of your international peers are creating a base in India and trying to become a bit competitive based on their employee expenses. If you can give is there any acquisition taking place or a big plant setup taking place which can create a competition suits for Balkrishna?

Rajiv Poddar: We can't comment on competition and what they plan to do.

Moderator: We'll take our next question from the line of Pramod Amthe from Incred Capital.

Pramod Amthe: This is with regard to the domestic business. What is your current market share in the Agri? And what's the medium-term ambition on the market share the way they have for global? And then second, do you plan to expand into any related subsegments in automotive?

Rajiv Poddar: So in India, our market share would be about 3% to 3.5%. And in related business, apart from Carbon Black, we don't envisage to at the moment, to go in any other business.

Pramod Amthe: And the second 1 is with regard to the margin expansion. So you are at around, if I'm not wrong, 280,000, 290,000 capacity production, assuming this year is going to be a single-digit growth.

Rajiv Poddar: In my opening statement, I had mentioned that we ended the year with 301,000-odd metric tons. So last year we clocked 301,181 metric tons.

Pramod Amthe: No, I'm speaking from a quarterly annualized basis. because if I had to look at the margin guidance which you are talking about, expanding from the current level by another 300 basis points, right, from the 4Q? So if I had to look at that context, you would be hitting your peak margins even at the lower utilization than in the past. So you feel you will scale and move high in operating margins in this upcycle without the Carbon Back itself?

Rajiv Poddar: Difficult to comment on now.

Pramod Amthe: But your guidance looks to be heading in that direction.

Rajiv Poddar: That is what we're estimating, yes. We are guiding in that. Let's see how it plays out.

Moderator: We'll take our next question from the line of Pragya Shah from Concept Investwell.

Moderator: We have reached the end of the question-and-answer session, and I'd now like to hand the conference back over to the management for closing comments. Over to you, sir.

Rajiv Poddar: Thank you, Mayur. Thank you to everybody for coming on this call, and we'll see you at the end of next quarter. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Asian Markets Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.