



# “Balkrishna Industries Limited Q1 FY2022 Earnings Conference Call”

## August 07, 2021

**Disclaimer:**

This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.



**ANALYST: MR. JINESH GANDHI- MOTILAL OSWAL FINANCIAL SERVICES**

**MANAGEMENT: MR. RAJIV PODDAR – JOINT MANAGING DIRECTOR - BALKRISHNA INDUSTRIES LIMITED  
MR. BAJAJ – PRESIDENT COMMERCIAL AND CHIEF FINANCIAL OFFICER - BALKRISHNA INDUSTRIES LIMITED**



*Balkrishna Industries Limited*  
*August 07, 2021*

**Moderator:** Ladies and gentlemen, good day and welcome to Q1 FY2022 Earnings Conference Call of Balkrishna Industries hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the company, which are based on 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. I would now like to hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal Financial Services. Thank you and over to you, Sir!

**Jinesh Gandhi:** Thank you, Janis. Good morning everyone. On behalf of Motilal Oswal Financial Services, I would like to welcome you all to Q1 FY2022 post results conference call of Balkrishna Industries. Balkrishna Industries is represented by Mr. Rajiv Poddar, Managing Director and the senior management team of Balkrishna Industries. We would like to thank the management for taking time out for this call. I would now hand over the call to Mr. Poddar for his opening remarks. Over to you, Sir!

**Rajiv Poddar:** Thank you, Jinesh. Good morning everyone. I welcome you all to the Q1 FY2022 earnings call of Balkrishna Industries Limited. I hope all of you along with your near and dear ones are safe and healthy. Along with me, I have Mr. Bajaj, President Commercial and CFO and SGA, our Investor Relationship Advisor.

Let me begin with performance updates. We continue to witness strong demand across geographies and segments. This is visible in a sales volume number, where we have clocked 68,608 metric tonnes for the Q1 of the financial year 2022. This is our highest quarterly sales volumes. We expect this momentum to continue as economic activity is in an upward trend and the governments worldwide are creating infrastructure. Further, end prices of commodities and agricultural produce continues to be robust thereby giving strong support to our sector.

While on the demand front, we remain positive, the raw material scenario is very challenging. All raw material prices are on an upward trend and this will impact our margin profile for the next few months. Further, the logistics costs have gone up significantly across all routes and we believe it could continue to be at similar levels throughout the financial year.

In view of these cost pressures we have been taking price increase of our products in the end markets on a quarterly basis. We are confident that we will be able to maintain a 28%



*Balkrishna Industries Limited*  
*August 07, 2021*

to 30% annual EBITDA margin on a long-term sustainable basis. At BKT, we continue to serve the society during these challenging times. We have, during the second wave vaccinated over 12,000 people in addition to supporting lives through various other initiatives through our We Care Foundation.

Let me give you an update on our ongoing and new capex program. Greenfield tire plant at Waluj, as mentioned in the previous quarter call the Greenfield tire project is expected to be completed by September 30, 2021. All the new capex announced recently is progressing as per schedule. We envisaged the entire new capex of Rs.1,900 Crores to be funded by internal accruals and some debt, if needed, in the financial year 2022 and 2023.

With this, I now move to the operational highlights. Our sales volume for the quarter was 68,608 metric tonnes, a growth of 80% year-on-year. Our standalone revenue for the quarter stood at 1,828 Crores, which includes realized gain on foreign exchange pertaining to sales of Rs.15 Crores.

For the Q1 of the financial year, 53% of the sales came from Europe, 19% from India, 16% from America and the balance from the Rest of the World. In terms of channel contribution 72% was contributed from replacement segment while OEM contributed to 26% with the balance coming from offtake.

In terms of category, agricultural segment contributed to 66% while OTR contributed to 31%, the balance came from other segments. The standalone EBITDA for the quarter was at Rs.535 Crores with a margin of 29.2%. Other income for the quarter stood at Rs.40 Crores while unrealized gain stood at Rs.17 Crores.

Coming to net forex items for the quarter, we incurred a net forex gain of Rs.38 Crores this includes realized gains of Rs.22 Crores and unrealized gains of Rs.17 Crores.

Profit after tax stood for the quarter at Rs.331 Crores with the margin of 18.1%. The contingent liability as of March 31, 2021, was Rs.65.4 Crores as disclosed in our annual report. In the first quarter of this financial year, certain tax assessment has been completed and the liability has been crystallized at Rs.35.7 Crores, which has been included in the tax expenses in Q1 of financial year 2022 as income tax of earlier years. The balance amount will get crystallized in coming quarters and will be accordingly included in tax expenses.

Our gross debt stood on Rs.1,076 Crores, our cash and cash equivalents were Rs.1,557 Crores implying a net cash position. For Q1 of this financial year, we incurred a total capex of Rs.366 Crores of this approximately 200 Crores has been spent on the new capex program of Rs.1,900 Crores.



*Balkrishna Industries Limited*  
*August 07, 2021*

For the Q1 of financial year 2022, the Euro hedge rate was Rs.87.53 and the forward hedge rate currently stands at around Rs.90. The board of directors has recommended an interim dividend of Rs.4 per equity share. As mentioned in my last quarter, we remain optimistic for the financial year 2022 and accordingly have been guiding for 2,50,000 to 2,65,000 metric tonnes of sales volume.

We are confident of improving the brand equity of BKT in the end market. With this, I conclude my opening remarks and lead the floor open for questions and answers. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** Sir, congratulations on a strong performance. Firstly, in terms of RM cost and ocean freight cost, how do you see things moving in Q2 versus June, will the ocean cost will also increase in Q2 versus Q1?
- Rajiv Poddar:** The ocean cost has already started to go up and we see this will be continuing for the rest of the financial year.
- Ashutosh Tiwari:** But do you see further increase in Q2 or remain somewhere like in Q1?
- Rajiv Poddar:** No, we see some marginal increase in Q2.
- Ashutosh Tiwari:** And RM cost?
- Rajiv Poddar:** RM cost, we believe that we have reached the highs and it should sustain at these levels, the new levels that we are talking about.
- Ashutosh Tiwari:** How much prices hike you have taken in July?
- Rajiv Poddar:** 2% to 3%.
- Ashutosh Tiwari:** If the only ocean freight cost will increase quarter-on-quarter, RM levels, that means that margins were improving in Q2 versus Q1?
- Rajiv Poddar:** We believe that it will sustain itself between the guidance that we are talking about between 28% and 30% and we are quite confident of hitting those numbers.



*Balkrishna Industries Limited*  
*August 07, 2021*

- Ashutosh Tiwari:** Sir, secondly on this Waluj expansion, so after that facility comes in, will we still operate the old plant which is required in the demand or we cannot do that?
- Rajiv Poddar:** We will see once the ramp up in the production is shifted, what is the condition and then will do an assessment and thereafter we will take a call on what to do with the old plant.
- Ashutosh Tiwari:** Thanks a lot. I will join in the queue.
- Moderator:** Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.
- Siddhartha Bera:** Thanks for the opportunity. Sir, my first question is on the demand side, I mean clearly we are seeing a very strong commodity and crop cycle, based on your experience, this will be probably the second year when we are seeing such a strong demand for us, so in terms of the outcome can you indicate how to look at FY2023? Can we again grow because ultimately these generally follow a cyclical pattern, so any thoughts on how to look at 2023 growth over the strong growth in business this year. The second is on the tonnage, we keep continue to guide about 2,65,000 metric tonnes which implies only 65,000 metric tonnes per quarter in the next few quarters, but given the strong demand, I think it can be higher, so some thoughts on that why are we being so conservative?
- Rajiv Poddar:** As we said in last quarter also that the current times are unprecedented and there is lot of uncertainty around the world whether the new wave hits, the new variants get mutated so that is why we are saying that we are confident of getting these numbers, the demand is strong as of now, but the uncertainty around us we cannot predict what will be the exact number, we will review it in the end of next quarter and then by that time we will have more visibility toward the last two quarters, so we can look at those numbers more accurately.
- Siddhartha Bera:** Sir, on the outlook for next year if you have any visibility on that how do you look at this cycle is sustaining?
- Rajiv Poddar:** So, it is too early to give a number for next year, but overall if you can see that with the capex coming up and the expansion program that we have lined up we see that the demands should remain strong and sustainable in the coming years so that is why we are taking this program ahead of expansion, so it looks good, but difficult to give the exact number for the next year.



*Balkrishna Industries Limited*  
*August 07, 2021*

**Siddhartha Bera:** On the capex side, what is the maximum capacity of production which can do in the next two quarters and there will be possible to prepone the second stage of Bhuj plan if the demand is strong?

**Rajiv Poddar:** We are working strongly towards the new project which is there and as I mentioned in my opening remarks that the progress is already there, and it is going on in schedule so we are looking to see how best we can do. As far as the capacity that we are currently operating it looks difficult to get numbers significantly higher than what we have right now, so as we said our current capacity is at 2,85,000 metric tonnes and that is the maximum, we can do till the new project comes on board.

**Siddhartha Bera:** I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Pramod from Incred Capital. Please go ahead.

**Pramod:** Basically, within your subsegment anywhere you see the demands being better than what you thought at the start of the year or six months back?

**Rajiv Poddar:** In all the segments we are seeing good positive trend whether it is in the agriculture side or industrial construction side, everywhere we are seeing some good offtake coming up and good tailwinds in all sectors, so it is very difficult to say one subsegment or the other, overall there is a good tailwind.

**Pramod:** In that context where are your system inventories in the sense the stockyard inventories or the in-transit inventory, how they stand? have they see a normal levels or you think they have substantially gone below considering the demand is strong?

**Rajiv Poddar:** The inventories, it is the part of the cycle, so it is going on. We are managing that well and looking to sustain those. We are keeping in mind the existing levels of sales which are there.

**Pramod:** You do not feel they are under-stocked or anything?

**Rajiv Poddar:** No.

**Pramod:** Considering the commodity prices have been pretty strong, are there any strong wins in that segment or in the US market for you to reach your medium term goals in both the segments or market share, have you seen the traction coming in the recent quarters because of the demand pull?



**Rajiv Poddar:** Yes, we can see, you know during my opening remarks, America's sales percentage has gone up marginally so that indicates that we are pushing on those sectors even if have seen the segment contribution of agri of the OTR that has also gone up to 31% so those things are continuously being monitored and being pushed and that growth is coming up.

**Pramod:** Thanks a lot.

**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. If you take a long term view, if we see the trajectory in which if you compare our tires and prices of our competitors in the other geographies, so there was a huge gap earlier somewhere in 2005, 2006, 2007 then the gap is slowly narrowing down over the years, so right now if I am correct it is somewhere between 15% and 20%, right?

**Rajiv Poddar:** Correct, yes.

**Ankit Kanodia:** If we take up to 5 to 7 years view from here, it may further reduce, so my question is towards the brand initiatives as to how much that will come into play or we still be focus more on now becoming lowest cost player? If you can provide some colour there?

**Rajiv Poddar:** So I think if you see the initiatives keeping in mind that we would like to bridge the gap to the top level, we have already started initiatives a few years back and if you see our sponsorship program, brand building, awareness program have been going on across all geographies and we are spending quite a significant amount of money towards that, so that is what we see of course we will reach a point where we will be closer to the top, but we will not be at the top, we will not be at the top competitors level, but there will always be some gap, but the gap will continue to narrow for the time being.

**Ankit Kanodia:** Thanks and if we again look at the last cycle when the whole OTR market was basically stagnant during the period of say 2013 to 2018 or 2019, we experienced really good volume growth even that period now when we see all around the world, the demand is coming back which is also reflecting in our quarterly volume numbers also. So is it fair to assume that over a long-term period say 3 to 5 years we will have a higher growth trajectory in terms of volumes?

**Rajiv Poddar:** As of today the demand looks positive. We see some strong tailwinds behind us, whereby we should be able to achieve the short-term vision that we have setup and the guidance that we are giving you for a year, we should be able to do and it is a process that we are building



*Balkrishna Industries Limited*  
*August 07, 2021*

for the long-term with the new capacities coming up and new plants coming on board so that we will us additional weapon in our armory to go out in the market and compete.

**Ankit Kanodia:** Anything about the competitive scenario over here, I mean how do we look at the competition specific in India when we are now making inroads in India market?

**Rajiv Poddar:** I do not see any change in the competitive scenario across globe and we continue to be where we were, so we are looking at it on a macro levels and monitoring it so we should continue doing that.

**Ankit Kanodia:** Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Arjun K from Kotak Mutual Fund. Please go ahead.

**Arjun K:** Thank you and congratulations for a good set of numbers. My first question is just a clarification in inventory levels you stated the inventory levels have normalized, are we talking of our inventory levels or at the dealer level or at the OEM level?

**Rajiv Poddar:** At the dealer level.

**Arjun K:** Sure, because earlier we refer to be slightly lower than normal in terms of inventory, so you believe that with these volumes inventories are now normalized?

**Rajiv Poddar:** Yes, for the moment they are normalized, but they are yet on the lower side of where they were, but they are much better than earlier, so that is why we said they are normalized.

**Arjun K:** Sure, in terms of number of days or in terms of quantity, how is that be different from what probably we have seen at the base level across our dealerships?

**Rajiv Poddar:** Normally we used to have maybe about 40 to 45 days, which is now close to 35 to 40 days, which had gone down to about 20 to 25 days, now it is up to about 35 to 40 days approximately.

**Arjun K:** Secondly Sir, you talked about taking price hike across on a quarterly basis so while you have given a long-term guidance of 28% to 30% thus this cost increase account for the increase in freight expenses or you believe that since it being transient that is not something probably will be able to pass on given that our competitors are more local base versus raw material, which impact everyone equally?





*Balkrishna Industries Limited*  
*August 07, 2021*

**Rajiv Poddar:** The last price increase which we have done in July should offset some of the operational cost of logistics which are there, so that is why say that we should be able to sustain at these numbers and that is why the guidance of volume of 28% to 30% and we should sustain at those levels.

**Arjun K:** Lastly, in terms of just the product profile by itself, so we hear a lot of incrementally environmental conscious company is shifting maybe towards EV's for some mining operations so do we have specific tire for the same, is there a different compound used may be more silica versus carbon black may be if you just talk about that or our R&D efforts, etc., so while we have come with higher range tires if you could just talk about our R&D will evolve for future technology?

**Rajiv Poddar:** If you see we have been doing that in the past and the reason I refer to past is because there is something in work on this front, but it is too early to mention or disclose, so we will get back to you once we have more concrete details to share, but if you see historically we have always been amongst the top players to bring out and be along with the curve on innovation so even in the agri side when we spoke about low soil compaction and all BKT was amongst the top four companies across the globe to launch in those segments, so we are working on these segments and these EV tires, etc., but too early to disclose anything.

**Arjun K:** Sir, you mentioned the average is roughly 45 days in the bottom we saw going down to 20 to 25 days, so in peak what is the peak inventory that you are seeing with dealers?

**Rajiv Poddar:** The peak inventory should be around 45 days.

**Arjun K:** Sure, that is helpful. Thank you.

**Moderator:** Thank you. We take the next question from the line of Ramdish Prasad from Credit Suisse. Please go ahead.

**Ramdish Prasad:** My first question was that this quarter we had the highest quarterly sales volume, it did not translate into higher revenue numbers in rupee terms, so what the reason behind it and what could be like we could be looking forward in the next quarter? What we have been seeing in the revenue numbers improving and as you said that the sales volume will remain approximately the same it was in the last so expecting some comments on that?

**Rajiv Poddar:** Revenue was also the highest.

**Ramdish Prasad:** Like 18 Crores to 20 Crores something like that?



*Balkrishna Industries Limited*  
*August 07, 2021*

- Rajiv Poddar:** Yes, that is our highest revenue.
- Ramdish Prasad:** Fair enough.
- Rajiv Poddar:** I have been confused with your question because the quarterly number in the highest revenue is there.
- Ramdish Prasad:** Got it. I wrongly interpreted it.
- Rajiv Poddar:** I hope that answers your question?
- Ramdish Prasad:** Yes.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** Sir, thank you for the opportunity and congratulations for the good set of numbers. Sir, my first question is just to understand basically Q4 to Q1 impact, can you quantify the raw material impact as well as the freight cost quarter-on-quarter?
- Rajiv Poddar:** So, basically if you see overall, other expenses has gone up by about 90 basis points and significantly this is attributed from the logistics cost which has gone up from June 2021.
- Nishant Vass:** So, you are saying that it is largely 90 basis point?
- Rajiv Poddar:** Yes and the raw material cost have already been factored in into the first half of this year and we have taken those price increases to meet those and we believe the raw material should now stabilize at these levels and logistic cost increase, we are taking some price increase in July, which should offset partially the costs of those, about 2% to 3% in July.
- Nishant Vass:** Just to understand how the contracts work because obviously the freight cost has gone up since last September significantly globally, so just to understand how do we cover the FOB prices with our distributors? Is everything covered by us or is that in a part contracts which get covered by the buyers, how does that work?
- Rajiv Poddar:** It is a mix and match with different customers have different geographies, different customers have different understanding, so somehow on CIF basis, somehow on FOB basis, so the CIF ones is where we take care of the freight and the rest is where the customer takes care of the freight, so wherever was FOB that gets factored in separately, but the CIF



*Balkrishna Industries Limited*  
*August 07, 2021*

one is where we are seeing the cost increase and that is why we are taking these price increase to match those.

**Nishant Vass:** I broadly ask you, not an exact number, broadly how much of your export revenue would be under CIF and FOB, any broad sense on that?

**Rajiv Poddar:** I do not have the numbers handy with me at this moment.

**Nishant Vass:** Alright, Sir, my second question is on the A&P expenses which has been getting on brand building exercise for multiple years now so how are you thinking about that, this year as we are coming out of the pandemic, are you looking at expenses in terms of inline with revenue growth or you are thinking of percentage likely to remain same at 6%, how are you thinking around that?

**Rajiv Poddar:** On an aggregate level we are spending to the tune of 120 Crores and which we see will continue at these levels for the time being at least.

**Nishant Vass:** This is just from pure marketing you mean, not commission?

**Rajiv Poddar:** Yes. This is mostly regards for promotion and marketing spends, basically brand building activities.

**Nishant Vass:** For incremental new program?

**Rajiv Poddar:** No, not at this stage, but as the business grows, we constantly review this and then continue to monitor whether it needs to be increased or decreased.

**Nishant Vass:** Sir, my last question is if you can help us, you mentioned about your Euro hedge rate, what was the dollar pricing for this quarter dollar hedge rate you have realized?

**Rajiv Poddar:** 78.

**Nishant Vass:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sanjay Satpathy from Ampersand. Please go ahead.

**Sanjay Satpathy:** Sir, your revenue mix was 23% for India last year and it has come down to something like 18% to 19% this Q1, was it because of some lock down related issues or you lost market shares?



*Balkrishna Industries Limited*  
*August 07, 2021*

- Rajiv Poddar:** No, if you see in the first couple of months of this financial year, most parts of India was under lockdown though we did not have a central lockdown like last year, but at state level lot of them were under lockdown, so we are seeing that effect coming in.
- Sanjay Satpathy:** So, will that kind of is that improving now and we will see better number from India going forward?
- Rajiv Poddar:** We are hoping for that, yes.
- Sanjay Satpathy:** You are not seen any signal yet?
- Rajiv Poddar:** I mean the demand is robust in India. India, overall situation is good, so we expect it to come back to those levels.
- Sanjay Satpathy:** There is no seasonality or there is like say monsoon or some external factors?
- Rajiv Poddar:** Yes, of course agricultural has a seasonality, so July-August are also marginally weak, but there is a buildup which was there because of the lockdown, so we do not expect this year the seasonality to come back I mean to effect the agricultural sales, overall also if you see the monsoon has been good in India so which is also good factor for the farming season to come, so we expect it to be good.
- Sanjay Satpathy:** What was the capacity utilization in Q1 for your overall considering that that you had highest ever quarterly sales and is capacity becoming bit of a constraint for you to really give a better guide despite such a strong number in Q1?
- Rajiv Poddar:** We are operating at near peak levels, so it would definitely come to become a bottleneck and that is why we have taken up the capex program in the season and already we had started that a couple of quarters back and that should come up as per schedule.
- Sanjay Satpathy:** Sir, my last question is that you are the lowest cost producer globally and you are facing kind of capacity constraints does not that make the industry more attractive in terms of pricing power point of view because you are the one who could really stabilize the pricing, right?
- Rajiv Poddar:** This is a lot of factors come in, like the demand, the consumption has to be there, so all those factors also have an impact, it is difficult to say.
- Sanjay Satpathy:** I mean you have already taken care of that by saying the demand continues too fairly strong and you are facing capacity constraint of course you have taken several price hikes and you



*Balkrishna Industries Limited*  
*August 07, 2021*

are also saying that the costs have peaked, but I am just trying to see is that the strategy of pricing from here on is more about having a long term relation and you are bringing in better bigger capacity and new products next year so is your pricing strategy more to do with your long term targets or it is purely a function of the current market condition?

**Rajiv Poddar:** Always businesses are done with the long-term view, it is not easy to take that call, but keeping the long-term view and as you said businesses are scaling up, so you take a short-term because you don't build a businesses for long-term, so we would always continue to look at the long-term view and wait for strategy on those processes and also this year our long-term vision is to go to 10% in the next four to five years of market share versus the current levels of 5.5% - 6% so keeping those views in mind our strategy will always be long-term.

**Sanjay Satpathy:** Understood, if I can ask the last question that you are undertaking several initiatives both modernization as well as new products as well as backward integration, so does not this mean that your overall cost competitiveness as well as product mix is over next two to three year will be far better or different compared to what it is today?

**Rajiv Poddar:** There is what we are trying to do and that is why we have taken up the various programs we have right from carbon black to product mix, so we are quite hopeful on that.

**Sanjay Satpathy:** Sir, can we just ask that despite the cyclical of the industry globally and considering that you have registered about 5% to 6% market share as a company can be relatively consistent in terms of delivering 12% to 15% kind of volume growth over the next couple of years?

**Rajiv Poddar:** It is difficult to put a number that way, but I mean if you see that is our vision and long-term view is to hit that 10% so in the next four to five years, if you put the math together we will have to hit similar numbers to get there.

**Sanjay Satpathy:** Understood. Thanks a lot and all the best.

**Moderator:** Thank you. We take the next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.

**Abhishek Jain:** Demand in the key markets of Europe like Germany, UK, France and Italy were quite strong and it contributed more than 40% of the Europe's volume, so how is the outlook ahead given the heavy flood situation in the main countries like Germany, which is the main market?



*Balkrishna Industries Limited*  
*August 07, 2021*

- Rajiv Poddar:** So, we see that there were flooding in parts of Europe, we do not think that will affect the business so strongly so we are expecting robust demands from there.
- Abhishek Jain:** Are you trying to expand your presence in the South America, Africa and Australia where the opportunity size is big especially for the OTR segment so is the current contribution from the market and what is your plan to expand in these markets?
- Rajiv Poddar:** I think basically if you see our product mix has been tried out and being well accepted. We are getting positive responses from the product, which were also trailed and now repeat orders are coming, so it is going good and it should progress.
- Abhishek Jain:** So, can you throw some light on the current situation of this South America and Australia?
- Rajiv Poddar:** You are talking particularly with reference to the OTR business?
- Abhishek Jain:** Both business, OTR and agriculture side?
- Rajiv Poddar:** So, overall demand is also strong here and we are seeing the good to order booking coming from these regions across both our segments.
- Abhishek Jain:** What would be the current contributions from these markets?
- Rajiv Poddar:** About 12%.
- Abhishek Jain:** South America and Australia both?
- Rajiv Poddar:** The whole South America, Australia, Asia put together and Middle East.
- Abhishek Jain:** My last question is related to other income, which has gone up significantly in this quarter because of the forex gain and you have also invested good money in mutual fund in FY2021, so just wanted to know what would be the fair run rate for the other income for the same quarter?
- Rajiv Poddar:** It should be the same as this quarter.
- Abhishek Jain:** 70 Crores to 80 Crores kind of this?
- Rajiv Poddar:** Yes, similar to this quarter.
- Abhishek Jain:** Thank you. That is all from my side.



- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** Congratulations for continuing good set of numbers. Where this volumes and margins and ROCE, balance sheet everything is excellent so how to look at things beyond the continuity of this, any thoughts on global M&As to enhance your scale close to what billion dollar Market Cap will be doing?
- Rajiv Poddar:** M&A and all those are constantly what we keep on watching out for while we grow organically and do everything on the grassroots level, we always watch out for any opportunities which comes on in the global level for inorganic growth, so far we have not found anything worthwhile and hence we have not done, but we continue to watch for this. If there is any opportunity we will definitely be evaluate it, we are not looking to get any assets internationally and hence that restricts our opportunities drastically but we continue to monitor this space on a quarterly basis.
- Basudeb Banerjee:** While not the interesting asset since you would be buying any manufacturing capacity out of India as such?
- Rajiv Poddar:** We are not actively looking at it and then as I said whatever the opportunity presents we evaluate it, how big it is, how it contributes and then we take a call, but yes, we are not very keen on getting assets internationally and that is why our opportunities are restrictive.
- Basudeb Banerjee:** Second question, like for the last many years the marketing activities in markets like Australia and 14 states regions one can see in a big way, so how is the end result in terms of demand picking up from those initiatives in those markets basically beyond the Europe and US?
- Rajiv Poddar:** Basically, if you see across the globe, if you look historical numbers Europe used to contribute roughly about 65% to 70% and on an enhanced number that has gone down to about 53% to 55% so you can see that the other regions are contributing. India where we did not have much sales is now up to about whether 20% to 21% last question was 19% because the lockdown you can see on the enhanced number these are becoming important similarly Rest of the World has also gone up to 12% on the enhanced number, so these initiatives that are resulting in fruitful conversion into the orders and sales.
- Basudeb Banerjee:** Can you highlight specifically how much Australia and Russia are contributing?



*Balkrishna Industries Limited*  
*August 07, 2021*

- Rajiv Poddar:** I do not have the breakup of that handy this payment for individual territories. We always club it on the Rest of the World and Russia is a part of Europe, so it get clubbed into Europe.
- Basudeb Banerjee:** One last question, like how the global market growing and what is the size of market as of now?
- Rajiv Poddar:** As I said we are about 5% to 5.5% of the global market, so that should give you size indication and so we have 95% available to us to go ahead and grow. The market seems to be growing at an average pace of around 3% to 5% in the off highway tyre space.
- Basudeb Banerjee:** Basically, agri plus industrial?
- Rajiv Poddar:** Agri, Industrial and OTR, yes, we can put together.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** Obviously, the agri commodity prices remain strong and even better commodity prices that is impacting demand positively, so is there an element of pent-up demand because last year COVID hit the market in the peak period so is there an element of that as well in this year's demand?
- Rajiv Poddar:** No, I think that has been covered in the last year Q2 and Q3. Now we feel that the demand is genuine and strong because of the commodity prices and overall governments are spending on infrastructure, etc., so we see this is no longer the pent up, but we feel it is genuine demand.
- Ashutosh Tiwari:** Secondly you mentioned the capex in Q1 was going around Rs 366 Crores, what will be the full year capex?
- Rajiv Poddar:** Roughly between Rs 900 Crores to Rs 1,000 Crores.
- Ashutosh Tiwari:** The capex number going ahead will be lower than this quarter and the subsequent quarters?
- Rajiv Poddar:** It is difficult to give you a quarterly breakup in the sense, but overall we are going to be between Rs 900 Crores and Rs 1,000 Crores for the whole year.
- Ashutosh Tiwari:** Sure, thanks.





*Balkrishna Industries Limited*  
*August 07, 2021*

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

**Nishit Jalan:** Sir, thank you for giving me this opportunity and congratulations on very, very strong set of numbers. Sir, my first question is on volume growth target that you have given is that achievable capacity of about 2,80,000 tonnes and you have already done to about 69,000 tonnes in this quarter so in that context our volume values are 2,50,000 to 265000 metric tonnes seems to be on the lower side especially given that this quarter is not typically best quarter in a year so are we trying to be conservative because this industry is very volatile and not sure how it pans out?

**Rajiv Poddar:** As I mentioned earlier in my remarks also and in a couple of questions, because we are in unprecedented times and there is lot of uncertainty over COVID wave, people talking about new mutations, wave three, wave four, so we do not know what peaks will come, what parts will go under lockdown, etc., so keeping that in mind we took a number at the start of the year normally we review at the end of half-year, so we will take it from there and we are confident of these numbers if there is any revision we will do it at the end of Q2 or in the next call as and when we feel that we need to revise it so we revisit in guidance in the next quarters.

**Nishit Jalan:** Fair point, Sir. Secondly, we are expanding our capacity of 50,000 tonnes in both, but given the kind of growth we are seeing obviously we start running out of that capacity also may be one and one-and-a-half years' time, so are we already starting to think about the big incremental capacity that you reach the capex and on that context we are trying to understand what is the scope of Brownfield expansion in the existing plants that we have and whether we will need to go for a Greenfield plant or not?

**Rajiv Poddar:** The Brownfield we can do at Bhuj and whatever we have announced the 50,000 that is ongoing, we have already taking that up as I said in our opening remarks that that is progressing well, anything beyond that we will evaluate and we will take it on the drawing board and we shall inform if anything materializes and gets crystalized after the board approval

**Nishit Jalan:** Sir, just a follow up, what is the further capacity that would be you can expand in Bhuj given the kind of land and all you have available, just wanted to understand what is the scope of Brownfield expansion in terms of capacity and beyond which we will need to do Greenfield?



*Balkrishna Industries Limited*  
*August 07, 2021*

- Rajiv Poddar:** So, we are yet working on those numbers to see what can be done, but we have enough land at Bhuj as of now to do Brownfield expansion there, but once we have anything more crystallized or materialized, I will keep you posted.
- Nishit Jalan:** Thank you, Sir and one last question as you talked about the 5% to 5% global market share, any idea what would be the China contribution in global market because that is a market where we are not present so if I exclude China then our market share already be closer to 9% to 10%?
- Rajiv Poddar:** No, I think as per estimate, even exclude China it would be about 7% to 8%.
- Nishit Jalan:** Thank you so much and all the best.
- Moderator:** Thank you. We take the next question from the line of Devanshu Sampat from Yes Securities. Please go ahead.
- Devanshu Sampat:** Good morning. Two questions, given the capacity constraints is there possibility or strategy that we have of up in prices or possibly narrowing the gap between us and the peers you keep the revenue momentum going into FY2023 of the time and you will come on stream?
- Rajiv Poddar:** If you see we work for more on a long-term view, so we do not want to gain short-term because this will impact our long-term view. Even when the demand was low we did not break our prices. We constantly maintain our prices so even now when there is a uptake in demand and capacity we do not want to hit out to our dealers and distributors by upping the price, so we will maintain that for the long term business view.
- Devanshu Sampat:** Can you give a sense of what is the pricing action by the competition like is the gap maintained or has it widened?
- Rajiv Poddar:** It is similar to what it was.
- Devanshu Sampat:** The last question, can you give a sense on how is the pricing strategy of BKT versus the domestic market or other brands, if you can give any sense on how we are price versus competition?
- Rajiv Poddar:** In India we are priced at premium and priced at par with the top manufacturers, so we are par with them towards a little bit of a premium, so we are on the upper end of the market in India.



- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.
- Lokesh Manik:** Good morning, Rajiv. My question is more on the distribution network. So a) have we been able to expand distribution network in the last one year and b) the growth that we are seeing in this quarter, is it more driven by the existing distribution network or from the new additions?
- Rajiv Poddar:** There has been very little additional distribution network that has been added in the last year. We evaluate whether gaps are and then try and fill that, but that is the view, but majority of the chunk of this volume growth has come from the existing distribution.
- Lokesh Manik:** Just one more clarification, Rajiv, in the last one year given this pandemic scenario did our dealers see any disruption in terms of lockdowns because world over I think agri was insulated from the effects of pandemic?
- Rajiv Poddar:** I mean if you look at macro level, yes, it was insulated, but when you go down to operational levels across the globe especially last year during the lockdown, they were not locked out but it was difficult operating conditions because all the farmers were not up there, nobody was coming to buy or logistically for them to transfer the tires was a problem so all the other issues was there which had an effect, but that was the last year.
- Lokesh Manik:** So, these are the supply chain impacts that took place?
- Rajiv Poddar:** Yes.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** Sir, thanks for the followup. Sir, just a question on the employee cost this quarter is there any bonus payouts or some trailing cost that are there, which is with increased quarter-on-quarter just to understand?
- Rajiv Poddar:** No, there is no bonus or anything. It just a marginal increase, but that is just for some additional people for the new plants those have started coming in and that is why this increase you can see.
- Nishant Vass:** This should be the stable run rate for the year or do you think this will further increase?
- Rajiv Poddar:** Marginal increase should be there, but at a buy and large stable.



*Balkrishna Industries Limited*  
*August 07, 2021*

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

**Nishit Jalan:** Thank you, Sir. Just one follow up, if you can share some details on the carbon black especially the external sales what percentage of revenues was from carbon black in term of our backward integration where are we, what percentage are sourcing in-house now?

**Rajiv Poddar:** In-house we are sourcing 100% from our own manufacturing. As far as third party sales it is less than 3% of our overall sales and as per the capacity of carbon black per se is roughly about 25% to 30% is sold in the open market.

**Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram MF. Please go ahead.

**Shyam Sundar Sriram:** Sir, good morning. This is Shyam. Thanks for taking my question. My first question is you just spoke about China's contribution in the overall market OTR market is about 7% to 8%, is there any China plus 1 strategy that is being passed out by either the OEMs or by the countries themselves to diversify their dependence away from China per se, are there any non-tariff barriers, enabling norms or anything of that sort which is coming up that can increase from our perspective as well, is there any other challenges coming up, thank you, these are the two question?

**Rajiv Poddar:** No, we do not see any non-tariff barriers being moved in top manufacturers of the global world.

**Shyam Sundar Sriram:** China plus 1, is there any thought process to diversify away from China either by any of these any of these geographies or by the OEMs your customers per se?

**Rajiv Poddar:** No.

**Moderator:** Thank you. The next question is from the line of Disha Sheth from Anvil Wealth. Please go ahead.

**Disha Sheth:** Sir, wanted to check when we achieve full capacity of 3,35,000 tonnes, so what is the peak revenue can we achieve from the current capacity and starting from the point of view that the demand is strong going forward for agri sector and OTR so in coming two years what revenue can achieve our current capacity?

**Rajiv Poddar:** Our peak capacity is 2,85,000 tonnes, but we do not usually discuss numbers in Crores we normally talk in tonnage basis because everything can be fluctuated on the pricing, what is



*Balkrishna Industries Limited*  
*August 07, 2021*

the current pricing, etc., so normally we talk on the tonnage terms, which is 2,80,000 tonnes and 2,85,000 tonnes and then 3,35,000 tonnes.

**Disha Sheth:** Sir, then 3,35,000 tonnes can be like increased in two years?

**Rajiv Poddar:** Yes, as per the scheduled that we have mentioned.

**Disha Sheth:** Sir on the margin front, when you are referring to the RM portion, you were also saying that the margins would be negative for the year, otherwise, I think in spite of the RM push, the freight helped this margin, is it because of the product mix change?

**Rajiv Poddar:** So, as we always said that our margin on a long-term annualized sustainable basis, we will be between 28% and 30% and that is what we have maintained and that we are confident of achieving those numbers and that will continue.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments.

**Rajiv Poddar:** We thank everybody for taking out the time and coming on this call and we hope that you and your near and dear ones continue to remain safe in the unprecedented times and please take care. Thank you.

**Moderator:** Thank you. On behalf of Motilal Oswal Financial Services that concludes this conference. Thank you all for joining. You may now disconnect your lines.