# "Balkrishna Industries Limited
# Q1 FY 23 Earnings Conference Call"

## August 05, 2022

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**MANAGEMENT:** **MR. RAJIV PODDAR - JOINT MANAGING DIRECTOR, BALKRISHNA INDUSTRIES LIMITED**
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**MODERATOR:** **MR. VIJAY SARTHY – ANAND RATHI SHARE AND STOCK BROKERS LIMITED**

**Moderator** Ladies and gentlemen, good day, and welcome to the Balkrishna Industries Limited Q1 FY '23 Earnings Call hosted by Anand Rathi Share & Stock Brokers.

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.

As a reminder, all participant lines are will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Sarthy. Thank you, and over to you, sir.

**Vijay Sarthy T.S.** Thanks, Aman. Good morning, all. On behalf of Anand Rathi Share & Stock Brokers, I welcome you all to the first quarter FY '23 results call of BKT. From the management side, we have Mr. Rajiv Poddar, the Joint Managing Director and the management team.

As always, we will start with the initial review of about results and then follow it up with Q&A. Thank you, and over to you, Mr. Rajiv.

**Rajiv Poddar** Thank you, Vijay. Good morning, everyone, and thank you for joining us today. Hope all of you, along with your near and dear ones are safe and healthy. Along with me, I have Mr. Bajaj, Senior President, Commercial and CFO, along with SGA, our Investor Relations advisers. Let me begin with performance updates.

We continue to see a sustained uptick in demand for BKT tires. However, in Q2, we expect sluggish demand given macro challenges in Europe, coupled with heat waves and inflationary trends in U.S. However, our continued focus on customer servicing, especially in the last few years since the start of the pandemic gives us the confidence to outperform the competition.

We continue to grapple with high costs, especially on the logistics front. In the current quarter, the logistic costs have come at 14.2% of sales, which is versus 7.1% in Q1 FY '22 and 13.8% in Q4 FY '22. We expect relief in logistics costs towards the end of Q3 or early Q4. Raw material prices have also remained at elevated levels. In the current quarter, raw material costs have come at 46.6% of sales versus 42.8% in Q1 FY '22 and 45.3% in Q4 FY '22. We expect some relief to come in Q4 of the financial year.

Accordingly, we expect a better margin outcome in the second half of this financial year.

Let me now talk about our Capex plans. During Q4 financial year '22, we commissioned the 50,000 metric ton brownfield tire plant at Bhuj. We expect complete ramp-up in the production to be achieved in the second half of this year. The total achievable capacity in the tire segment will be 360,000 metric tons per annum by the end of financial year '23.We expect the commissioning of 55,000 metric tons per annum of Carbon Black project, along with the power plant during Q3. The advanced Carbon Black project of 30,000 metric tons will be commissioned in Q4 of this financial year.

With this, I now move on to operational highlights. Our sales volume for the quarter was 83,153 metric tons, a growth of 21% year-on-year. Our standalone revenue for the quarter stood at INR 2,726 crore which includes realized gain on foreign exchange pertaining to sales of INR 80 crore.

For financial year FY '23, 50% of the sales came from Europe, 21% from India, 20% from America and the balance from rest of the world. In terms of channel contribution, 70% was contributed from the replacement segment while OEM contributed 28% with the balance coming from uptake.

In terms of category, agricultural sector contributed 64%, while OTR, industrial and construction contributed 33%, and the balance came from other segments. The standalone EBITDA for the quarter was at INR547 crore with a margin of 20.1% EBITDA. The EBITDA for the quarter has been impacted by higher logistic costs and raw material costs in addition to higher power costs and investments in brand building for the quarter. Other income for the quarter stood at a loss of INR15 crore, while unrealized gain stood at INR26 crore. The other income loss was on account of MTM, loss of investments in equity mutual funds and debt.

Coming to the net forex items. For the quarter, we had a net forex gain of INR 117 crore. This includes a realized gain of INR 91 crore and unrealized gain of INR 26 crore. Profit after tax stood for the quarter was recorded at INR 320 crore versus INR 331 crore for Q1 in financial year '22. Our gross debt stood at INR 2,752 crore at the end of 30th June 22, of which INR 2,251 crore is related to working capital debt. Our cash and cash equivalents were at INR 1,972 crore. So far, we have incurred a total capex of INR 1,322 crore on the ongoing capex program of INR 1,900 crore.

For Q1 financial year'23, the euro hedge rate was INR 85 with a forward hedge rate currently stands at INR 85 for the levels for the financial year '23. For financial year '23, as guided in the last earning call, we foresee sales volume of 320,000 to 330,000 metric ton, considering the capacity enhancements from ongoing projects which will come online by the end of first half of this financial year. However, there may be short-term challenges on account of inflationary trends, rising interest rates as well as weather patterns in Europe. The Board of Directors has declared a first interim dividend of INR 4 per share.

With this, I conclude my opening remarks and leave the floor open for question and answer.

**Moderator** The first question is from the line of Ashutosh Tiwari from Equirus Securities.

**Ashutosh Tiwari** So firstly, on the margins, if I look at quarter-on-quarter because the freight has gone up almost INR 3 per kg and RM costs also are increasing. I think you broadly were able to compensate the effect of this RM and freight cost increased quarter-on-quarter. But other expenses have shot up almost significantly if you remove the the freight cost. So almost there is a 27% increase quarter-on-quarter in the other expenses. So what's the reason behind that? Is there any one-off over there?

**Rajiv Poddar** So there are two things on that. One is the -- if you see the numbers, you need to account for the higher turnover in this quarter as well. So you need to put that. And also, as I said, the power cost has also affected us. And some part of the branding, which has come in this last quarter, which has also come into play in the particular quarter. The payments have come in that quarter.

**Ashutosh Tiwari** Sir, I think the volumes have gone up roughly 8% quarter-on-quarter, but other expenses have gone up 27%. So can you just break it out the power cost increase quarter-on-quarter and this branding cost in piece?

**Rajiv Poddar** I don't have the breakup right now, but we can connect offline for that.

**Ashutosh Tiwari** Okay. And you also mentioned some losses in other income. Can you just quantify that or throw some light on that?

Some losses on equity mutual fund and the debt mutual fund investment, right?

**Management** So there is an investment portfolio which was created last year. And to the extent that there is some losses in the equity and the debt portion of the investments that have been made. These are not cash losses. These are MTM in nature, and there can be some reversals going ahead.

**Ashutosh Tiwari** That's other income is related in this quarter adjusting for forex gains?

**Madhusudan Bajaj** Yes.

**Ashutosh Tiwari** And lastly, on the outlook side, you mentioned that there are some challenges in Europe. So is it because of this whole heatwave as the reason behind Europe or there's some other reason behind that?

**Rajiv Poddar** As I said, our -- the weather patterns in Europe are playing a role. So the heatwaves, which have just recently come.

**Moderator** We have the next question from the line of Sonal Gupta from L&T Mutual Fund.

**Sonal Gupta** A couple of questions. One, on the freight rate side, like you mentioned you expect that to come down in Q3, Q4. So just wanted to understand what portion of the freight cost are you passing on? How much is FOB? And how much is on a CIF basis? And how much are you passing on as a surcharge. So what is effectively -- what we're not passing on?

**Madhusudan Bajaj** So our 50% contracts are on CIF basis and approximately 50% are on FOB basis. And from the CIF basis, whatever we were there on 50%, we were able to pass roughly.

**Sonal Gupta** Got it. So basically on 25% of our export volumes you were not be able to pass, right?

**Madhusudan Bajaj** Yes.

**Sonal Gupta** So as a result then, I mean, that passing on is coming as a higher realization as well, right?

**Rajiv Poddar** Marginally higher, yes. Not the whole impact of it, but marginally higher.

**Madhusudan Bajaj** Also it was also not fully, it was partially.

**Sonal Gupta** Okay. Okay. So the CIF bids, then we can assume that 30% to 40% of CIF customers is not passed on.

And just continuing with Ashutosh's question on the demand outlook, especially for the European market. I mean like what are you seeing? Is the market actually shrinking given the geopolitical issues? And I mean, if you could just talk about especially the agri tire market, what is your expectation?

**Rajiv Poddar** So there's no shrinking or anything. It is challenging. So I mean, there is uncertainty and there is a challenge over there. Maybe this quarter could be a little challenging. But overall, the demand is not shrinking or anything. So we are confident of the numbers. But this quarter, you may not see -- I mean this current quarter may be a little bit of a challenge.

**Sonal Gupta** No. So that is coming because of the -- I mean are the distributors cutting back on the inventory levels? Or what is happening? I'm just trying to understand like the end retail demand, how is that sort of moving?

**Rajiv Poddar** End retail demand as of now is yet good. The distributors are cutting back on their stocks, what we are seeing because of the uncertainty in the market space.

**Moderator** The next question is from the line of Lokesh from Vallum Capital.

**Lokesh Manik** Just one question on my end. We have seen the number of SKUs increase from 2,700 to 3,200. and the quarterly volume has gone up from a run rate of approximately 60,000, 65,000 to even this quarter at 83,000. How much would you attribute that to the increase in SKUs? Just a broad idea, not anything specific.

**Rajiv Poddar** So the SKUs were not built up over in the last quarter. The number of SKUs have actually gone up in the last 1 year to about 15 months. And it's an impact of all of that coming together. So new SKUs help complete the basket. So kyle also is there but with there the entire basket has gone up. So it's not fully attributable to only being the new SKUs. There's an order mix, the basket rate remains the same. So new products are helping...

**Lokesh Manik** I'm just trying to understand the incrementally how much is coming from the new SKUs? Just an idea.

**Rajiv Poddar** So it's very difficult to give you a breakup like that as to what is the breakup for new incremental sizes. But overall, it is added to the basket. So the sizes have always been added to complete the basket as our part of our vision to be a single-stop supplier for off highway tires.

**Lokesh Manik** Okay. But do you see that there is still more scope with this new SKU -- more scope for volume growth going forward?

**Rajiv Poddar** Yes, of course. Yes. I mean if you see that with this current uptake also, we are about 6% of the market. So there's over 90% of the market available in that sense to grow. And the market itself is also growing. So there is a huge scope.

**Moderator** The next question is from the line of Jinesh Gandhi from Motilal Financial Services.

**Jinesh Gandhi** So a couple of data points first. Can you share the impact of RM cost or commodity cost in 1Q? We have already witnessed and what we expect in second quarter? And secondly, the price hikes taken in 1Q up in August till date.

**Rajiv Poddar** So price hikes that just come in, in the last quarter is about 5%. And on the rubber side, Q1 was about INR 160, and currently, it's about INR 155.

**Jinesh Gandhi** Okay. And secondly, why do you believe the lower RM cost will only reflect towards fourth quarter and not earlier than that? is it because of the contracts which we have?

**Madhusudan Bajaj** Yes. We have the concept and normally, we keep one month or 45 days inventory as well as materials in transit. So when we import the materials that has already been booked and is in the ship, so our impact will be coming one quarter later.

**Moderator** The next question is from the line of Pramod Amthe from Incred Capital.

**Pramod Amthe** A couple of questions. One, if you look at the Europe agri replacement tire industry, it has collapsed by almost 20%. And still in this quarter, we have been able to grow the volume by 20%. And you were giving the comment that your dealers are destocking. So what is your stock level in your stockyards, and dealers now versus the industry average?

**Rajiv Poddar** We don't have the breakup of what is there in our dealers' stock levels. But more or less, the distributors are about 20% higher to where they were earlier and their demand is yet going on. So the end user demand is yet strong. So they are reducing that level to bring it down.

**Pramod Amthe** And second one is with regard to EBITDA margins, even though some of the pressure seems to be transitory in nature, the commodity and also the freight. but it's like almost like a five-year low margins for you. Considering that you added capacity and there are excesses in costs, which might have happened, do you plan to initiate any aggressive cost-cutting measures so that along with the market recovery, you should be able to get the margins back to the historical level much faster?

**Rajiv Poddar** So cost cutting is a continuous step that goes on in the company. When we have good quarters also, it's not that we don't look into cost cutting. That is something that is done regardless of the results because if we can save anywhere money, why we should not save. So that is not a result of this, but that is continuously ongoing.

**Pramod Amthe** And the last question is if I look at your annual report, the exposure, which you are taking for EIS and start-up investments, it seems to be continuously going up. What's the rationale to fund it through the balance sheet, one? Second, can you give a guidance in terms of next 3 years how much you plan to invest in this area?

**Rajiv Poddar** So as we told earlier that was done last year to park the funds. And now when the capex cycle comes, the money will be used for that. So that was a temporary sort of nature parking of funds which was done.

And we don't foresee any new money going there towards that.

**Moderator** The next question is from the line of Rishi Vora from Kotak Securities.

**Rishi Vora** Just one question on realization, right? So historically, you used to do INR 260 to INR 265 per kg of realization. And obviously, there is price hikes which you have taken, but there is also some element of, let's say freight adjustments, which happens in realization per kg. So once this freight cost comes down, where do you think our stable realizations would be, let's say, one year, two year down the line?

**Rajiv Poddar** It's difficult to put a number and tell you this is where we will expect it to be because of the product mix and its FOB, CIS. So that will be difficult to put a number, but there will be some as these costs are going down, there may be some cutback in the realization also because that will be needed to be passed on. But it's difficult to put a number and say this is where we expect the range to be. But what we can say that regardless of the realization, at the long term, we've always strived and maintained that our endeavor will be to maintain an EBITDA margin of 28% to 30% on a long-term basis. So that is where we will strive to be.

**Rishi Vora** Just a follow-on on your current realization of, let's say, INR 325, INR 330 per kg. What would be the freight-related realization increase if on this? If you can give us some idea, that would be helpful.

**Rajiv Poddar** That I don't -- I mean we can't give that number now.

**Rishi Vora** Okay. And sir, just the last question ondo you expect RM inflationary pressure in second quarter as well?

**Rajiv Poddar** Yes.

**Rishi Vora** And you haven't taken any price hike in the current in the second quarter, in July and August?

**Rajiv Poddar** No, The market is challenging. So we may not -- we are not able to pass on in this quarter. We just did a 5% in Q1. So it's difficult to continuously pass on because as the marketplace has leaned.

**Moderator** The next question is from the line of Nishit Jalan from Axis Capital.

**Nishit Jalan** I have two questions. First of all, on demand side, we can understand that heatwave is impacting, would probably be impacting some demand of argi in Europe. But you have also talked about some demand caution on the U.S. front, highlighting inflationary pressures. And then we're also hearing about recessionary concerns on Europe. So in that context, how do you see demand from the next one-year perspective? Other than the temporary issue that probably you are foreseeing right now in the European agri segment, how are you seeing it in U.S. and all?

And a related one on that, we are seeing a volume decline in the rest of the world market for the last two quarters now. So any comments on that? Any market in particular where you are seeing some concerns which have started to come?

**Rajiv Poddar** So I mean, if you see in the last couple of quarters, our production was already maxed out. So we had to sort of ration the goods. So that is why in certain markets have shown negative for the last two quarters, we saw that the market demand was falling, it is we were rationing the products to different areas, and that is it. Long term, we see the opportunity is strong. We believe the markets will come back and maybe a couple of quarters could be challenging. But overall, in the long term, the opportunity is good, and we foresee it to be strong.

**Nishit Jalan** In the U.S., what you have highlighted the concern of inflationary concerns or basically macroeconomic slowdown? That is probably not going to go away in the next one to two quarters. Do you see that next one year or one and a half years could be challenging in the U.S.? Because there is no weather-related issue in U.S. It's primarily impacted probably in the European agri market. So in the U.S. market, in particular, how are you looking at that market from a next three, four, five quarter perspective? I understand that the demand will be good over the medium term, but purely from the next one year or so perspective.

**Rajiv Poddar** So we believe in U.S. also, the market for us would be good despite these trends, inflationary trends because we -- at the moment, they are at the stage of growing. So a lot of foundation work had been done and results have started coming. So if you see in this current quarter also, Americas was about roughly -- it's about 22%, 23% up from about close to 18%, and market we had a growth over there of about 47% in America. So it's -- that we think is yes, the 47% growth will maybe come down slightly, but overall, it will be good for us.

**Nishit Jalan** Got it, sir. Got it. And sir, secondly, on the freight part, I think another participant had said. So if I have to put it differently this quarter, your freight cost per ton was about INR 46,000, INR47,000, right? Historically, if I look at freight cost per ton has been about INR 11,000 to INR13,000. So fair to assume that the increase of about INR 30,000 to INR 35,000, almost half of that, you mentioned that you are passing it on to the customers. So fair to assume that INR 15,000 to INR 20,000 per ton is the realization is reflecting in realization which will normalize going ahead as freight costs also normalize?

**Rajiv Poddar** Yes.

**Nishit Jalan** And lastly, what was the net debt level that you mentioned? Sorry, I missed that.

**Rajiv Poddar** Our net debt.

**Management** INR 750 crore broadly.

**Nishit Jalan** INR 750 crore, right?

**Rajiv Poddar** Very broadly.

**Nishit Jalan** Okay. And sir, capex, what are we looking at this year and the next year?

**Rajiv Poddar** So this year, we have already announced the capex, which is ongoing, which is about roughly at about -- I mean from the rounds, we have this year will be about INR 900 crore in the overall picture of what we have announced.

**Nishit Jalan** And any rough number that you can share for the next year?

**Rajiv Poddar** Next year, we are working. yet on the drawing board for the new greenfield or brownfield project that is in work in progress. So we've not yet put numbers together. I mean we are not ready to put it up to the Board yet. We'll probably wait for -- I mean, it's in the drawing board at the moment.

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| **Moderator** | The next question is from the line of Priya Ranjan from HDFC Asset Management. |
| **Priya Ranjan** | My question related to the currency depreciation of euro particularly related to the pricing gap between you and probably the premium player. So how do you see the market evolving in that context? Because your cost will be in rupees and your selling will be in the euro and while the local manufacturers will have an advantage because their cost will also be in the euro and the selling price will also be in euro. |
| **Management** | To the extent that we have exports, Priya Ranjan, there are imports of raw materials. So from a currency movement, there will not be too much of impact of the currency movement that you are seeing today. |
| **Priya Ranjan** | But the problem is with the euro. |
| **Management** | On a net basis, we are hedged for the year. And that hedge currency stands at about EUR 85 for FY '23. |
| **Priya Ranjan** | But beyond that, the future price hike will also be dependent on the price gap between what you follow it with, say, Michelin or the premium guys and your raw material will typically be in dollars. So dollar has actually appreciated while the euro, etc, has depreciated. So I mean on the cost side, you are seeing pressure in terms of dollars, but that can be offset probably from the sale of non-euro side. But the euro side because that is the most heavy volume for you guys. So around 50% coming from the Europe side. |
| **Rajiv Poddar** | Differential between Tier 1 and us will continue to remain at the similar level, the difference will continue at the same level. |
| **Moderator** | The next question is from the line of Siddhartha Bera from Nomura. |
| **Siddhartha Bera** | Sir, my question is on the capacity side. So right now, if you see, we are already at about 330, and you are saying you'll reach by about 360 by year end of the year. So do you think for growth, you may need to have more capex requirement of capacity coming up next year? Or do you think current levels are sufficient for growth in the next year? |
| **Rajiv Poddar** | So it's yes, we are as I mentioned earlier, that we are already on the drawing board to look at either a brownfield or a new greenfield project. So once we have more details, we'll share with you. But I think by – that's in the pipe, so you are absolutely right that it needs to be done, and we are \working towards that. |
| **Siddhartha Bera** | Got it. And generally, how long would you think it would be required for -- after you decide for the capacity to sort of come onstream? |

**Rajiv Poddar** So if it's a brownfield, it will be about one year. And if it's greenfield, it will be about 15 to 18 months.

**Moderator** The next question is from the line of Joseph George from IIFL.

**Joseph George** Just one question. So if I look at your previous down cycles. Once demand weakens, it has lasted for three or four quarters, and we don't come across so many instances where there are one quarter demand is weak and then immediately the next quarter, demand bounces back. At this time, as I look at your guidance, you said that 2Q would be weak but you've maintained your full year guidance, which implies that you're expecting a volume bounce back, say, in 3Q and 4Q. So I want to understand how is this weakness compared to what we have seen in the past? How do you feel confident that after one weak quarter, things will bounce back? And as a result, you have maintained your full year guidance. That is one. And a related point is that. You mentioned that underlying demand is strong, but distributors are cutting back inventory because of which your offtake is lower. Do you think it's possible that the distributors are seeing things on the ground much better because of which they are cutting down inventory in anticipation of upcoming weakness in retail? So if you can respond to that.

**Rajiv Poddar** So I think your second part answers the first question. What we see is at the end user level, the demand is very strong, and there is a good pickup over there. So that's why we are confident of these numbers. What we are seeing that the destocking is happening at the distributor level because of the huge excess -- I mean, there's been a big jump in the last quarter and last two quarters, actually. Both the quarters have been higher than the previous ones. So that is now reaching them.

Also, the shipping times have started to come down. So people are not -- earlier what was taking four, five, six months to reach is now reaching in the about four months because availability of containers has eased out. So that's why they are also looking to hold back some orders and deplete their stock and then reorder. So that's why we are confident that in the Q3, Q4, hopefully, the demand will come back because we don't see it as a retail issue, we see it only as a temporary destocking issue.

**Joseph George** Okay. But the reason that you gave, which is heatwave, etc, seems to be an end demand issue rather than a destocking issue?

**Rajiv Poddar** Those are heatwaves are coming. But I mean, if you see last week, again, parts of Europe had good rain. So that's why we said that weather patterns in Europe are a challenge for us in the near term. But we are quite confident in the way the last one week rains have all started coming, then it may ease out.

**Moderator** The next question is from the line of Sanjaya Satapathy from Ampersand.

**Sanjaya Satapathy** My question again is relating to the demand. Are the dealers cutting down on their inventory, primarily because they anticipated a price cut because most of the raw material as well as freight costs, etc. are going down?

**Rajiv Poddar** Yes.

**Sanjaya Satapathy** Okay. And last two years, almost, you have been seeing this cost reserve and you have been taking hit on the margin and your long-term guidance is probably -- which is not really being realized because the cost reserve. But at the same time, considering how the dealers are behaving -- so do you think that your long-term goal will get pushed out in terms of reaching back better margin? You will be required to give price cuts much before the cost benefit kind of comes to you?

**Rajiv Poddar** No, we have been able to pull that in the past also. So we are quite confident we'll be able to pull that. And then that's why we say that our endeavor is to maintain an EBITDA of 20% to 30% on a long-term basis. And we are quite confident with looking at our past experience that we've been able to do that, pull out the gap between passing and holding back.

**Sanjaya Satapathy** Okay. And if I just asked a little differently, like the end of March quarter result, the commentary in terms of margin was at least like March quarter was the worst quarter, but still the margin fell further. So what really went wrong between the quarter that the margin again kind of...

**Rajiv Poddar** So if you see in my commentary, I told you that we've had an impact between the two quarters of further hike of freight to the tune of nearly 0.75%. And also the raw material also had an impact of about 1.5%. So those two things coming together has had an impact on the margins.

**Sanjaya Satapathy** Yes. I understand that. But most of the actual spot prices actually went down. So it is a case of your long-term contracts hurting you, right?

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**Rajiv Poddar** Yes.

**Sanjaya Satapathy** Okay. So that is where the market is not going to wait for your long-term contract to kind of ease out before you get the benefit. So is it kind of a bit of a wrong call in terms of management getting too much of a long-term contract? Or that is something which will ease out probably in Quarter 3? That is what you were indicating.

**Madhusudan Bajaj** That is our normal business. It means whatever quarterly contract we are doing, that material comes in the next -- up to next mid of the next quarter, and one and a half months inventory, we are maintaining. So always, there will be a gap of one quarter between the price correction between market and our price correction.

**Sanjaya Satapathy** Understood. Here's what I'm asking is that did you take excessive inventory, your long-term contract because of the supply situation? Or it was a normal business. So one quarter time, it will bounce back. That is the only...

**Rajiv Poddar** Yes, it's a normal business call because it's difficult to always time that when will be the lowest or when it will fall. You will have a situation when you're waiting for stock because also in the previous quarters, availability was challenging. So if I waited too long, there would be a situation where I would not be having material to produce. So that would be another problem. So it's -- at the end of -- see, it's very easy to say that Management did this wrong or right or what, but it's a business call which happens and its continuous process.

**Sanjaya Satapathy** Okay. Okay. I was just trying to say that it was the normal business or a speculative .

**Rajiv Poddar** No, we don't want to speculate.

**Management** It's a normal business.

**Rajiv Poddar** We only do our regular business. There's no speculation in our business.

**Moderator** The next question is from the line of Basudeb Banerjee from ICICI Securities.

**Basudeb Banerjee** One, as you rightly mentioned that you are planning a mix round of capex either to brownfield or greenfield. I just wanted to know, out of 360,000 ton push is now at 2 lakh ton. So how much incremental debottlenecking which you can see? Is it 1 lakh ton more?

**Rajiv Poddar** Yes, we have space sorting brownfield over there. So that can be done up to 1 lakh, yes.

**Basudeb Banerjee** Second thing, sir, as many of the participants asked a similar question just for more clarity. If I look at Y-o-Y volumes are more or less up around 20% and other expenses are up more than 100%, part of which is because of multifold increase in freight cost, power cost inflation. Just wanted to understand, is there any temporary elevated brand building activity going on for past few quarters which will culminate? Or nothing like that, all our sustainable brand building expenses in that line item.

**Rajiv Poddar** So a lot of the brand building, especially in the Indian cricket sector happened in the last quarter. So those expenses have all come and clubbed together. And so that is what we are seeing. It's not that it has increased. Our sponsorship-related spend for the year are between INR 120 crore to INR 130 crore, and that is continuing. So there's no certain jump on that. It's just that it has come in one quarter. Some payments have come in one quarter.

**Basudeb Banerjee** So if you can highlight, sir, out of that INR 120 crore or INR 130 crore what was in Q1 itself, that will give more clarity that, that expense will normalize in coming quarters, so will remain at that level for full year.

**Rajiv Poddar** Yes, yes.

**Basudeb Banerjee** If you can highlight, sir, what was the quantum accounted in this quarter?

**Rajiv Poddar** We don't have the exact number now.

**Basudeb Banerjee** But one can assume to be almost half of the full year number. Will that be right, sir?

**Rajiv Poddar** Around 40%.

**Basudeb Banerjee** Okay. And last question, sir, like with many questions also asked, will it be right to assume that till date where we are more than almost halfway through Q2 itself despite heatwaves and adverse macro issues, retail demand in Europe for you is still very much steady?

**Rajiv Poddar** Yes. The retail demand is steady. That's why we are confident of hitting those numbers.

**Moderator** The next question is from the line of Chirag Shah from Edelweiss.

**Chirag Shah** My first question is a follow-up on the investments in equity instruments directly with that which you have done. So FY'22, we saw a reasonable jump, if I take into account EPS also that you have passed money. Generally, in the past, we have not chosen equity instruments in that same -- so what has changed and how should we look at it?

**Rajiv Poddar** So as we said, there is no change. It was just temporary parking when money was available. So -- and because those times the debt rates were very, very low, and that's why we had done this. But as we've already said in my earlier commentary that no new money will be put in that. As the capex cycle comes, this money will be used for that, it was just a temporary arrangement done since we had the funds at that time.

**Chirag Shah** Okay. And the second question was on the outlook that you shared. See, when I look at your per kg or per ton cost sequentially, there seems to be -- the freight cost is also has not gone up significantly, maybe by INR 1 or so per kg. Okay. So I'm talking Q4 to Q1.

**Rajiv Poddar** Yes.

**Chirag Shah** Okay. So the sequential increase is not as significant as you are indicating in that sense. So how does your contract on this work for you? I mean we can see immediate reduction in your freight costs as the rates go down or even there, there could be some lag?

**Rajiv Poddar** No, there should not be a lag. There you will see an immediate impact, positive impact.

**Chirag Shah** And that impact, when can we expect this? Can you expect from Q2 itself, given that the rates have started coming down? Or it will take some time?

**Rajiv Poddar** What we said is that we'll start seeing the benefit start from this quarter itself. But significant impact by the time you start seeing it because it starts slowly and then it builds up. So you will see the big chunk of that at the end of Q3.

**Chirag Shah** End of Q3. Okay. And sir, last question on demand. Now while you are confident about achieving your guidance number, if push comes to the shove between volumes and margins, how would you look at -- given the macro uncertainty which is there and beyond the point even you may not have clarity on that. So would you look at achieving the targeted volumes at the cost of profitability because utilization is more important than margin? Or you will focus on per kg or per EBITDA, per ton profitability? So how do -- how should we understand the balance from here on, agreeing there is uncertainty actually turns on the adverse side for us?

**Rajiv Poddar** So for us, margins and profitability is more important. We have never compromised on that. So we will always focus to build that. So if you have to choose between one, it would always be margins.

**Moderator** The next question is from the line of Sameer Dosani from ICICI Prudential AMC.

**Sameer Dosani** I think maybe this was answered. But just to understand, when I look at -- when I look at sequential per kg metrics, right, your realization has gone up by INR 12, raw material cost maybe by INR 9 and fare by INR 3. So your realization majorly covers the impact, right?

But if I look at EBITDA per kg, that's fallen down by INR 10 sequentially. And can you explain the -- what I've answered it, but can you explain what is the kind of impact that's there in this quarter? And how can we assume or maybe look at this number going forward in a few quarters?

**Rajiv Poddar** So you have to add the power cost also because as the demand went up, we did not have our own captive power plant in place. So we had to use coal, which was having an impact on the power cost. And for that already, the power plant is going to be set up. It's in final stages in Q3 of this year. We should have that on board. So that should have a significant change in the power cost. And also some, as I mentioned, that some of the advertising and branding costs for the whole year came in this quarter. So that should ease off.

**Sameer Dosani** Right. And just to understand this advertisement, how big could it be, I mean, in this entire scheme of things, just for this thing?

**Rajiv Poddar** I don't have those exact number breakups on them.

**Sameer Dosani** Sure. Okay. And secondly, when I look at your employee expenses on a sequential basis, it has gone up by 20%. Is there some one-offs? Or do you expect this to continue? Or what is the trajectory that would be there in these employee expenses?

**Rajiv Poddar** So as you see, I mean, in the last quarter, we had incremental new plant come up. So those costs have come -- where the whole production has not come because there is a modular -- production increases modularly but the manpower we had to take fully on board. And also during the summer months, we normally have some incentive for the people because to retain them. So those two things are coming in that quarter.

**Sameer Dosani** Okay. And if you can -- obviously, you have provided a trajectory around the margins. But can you just provide some outlook on the EBITDA per kg? How do you see that panning out? Will it go back to the earlier -- how do you see that, I think, in next few quarters?

**Rajiv Poddar** I mean all I can say is that we are expecting relief on logistics and on raw materials, so those should come back. Our endeavor is to hit 28% to 30%. And as I said earlier also that our focus has always been on margins, not on volumes. So those things is where -- just to put a number on every quarter, where do we see the numbers going next quarter, what is there. But yes, we see some relief in both the areas where our major pain is. And also power and fuel, we have already initiated the captive power plant coming up, and that should also impact. So all the three areas which were pain, you will see a relief in that.

**Sameer Dosani** No. So where I'm coming from is because all of these -- the raw material and freight would be majorly passed on for us, right? So in EBITDA per kg basis...

**Rajiv Poddar** So I'll interrupt you because we -- when it went up also, we were not able to pass on the whole thing. So when it goes down also, I mean, those things -- we've done it in the past also. So there's always -- you keep some part of it in -- it's not a full pass on. Like how -- in both sides. When it goes up, you don't do a full pass on. When you it goes down, you don't do full pass on.

**Moderator** The next question is from the line of Abhishek Jain from Dolat Capital.

**Abhishek Jain** Sir, as the manufacturing cost is increasing in Europe and U.S., how do you see the opportunity in terms of the gaining market because of the lower cost benefit? Can you throw some light on the market shares in Europe and the U.S. in agri and OP or both sides?

**Rajiv Poddar** So yes, I mean, we see the markets to be good, both -- the opportunity will be good. And that's why we are looking at -- we are on the drawing board for our next expansion. And we personally believe that there's going to be a good opportunity for us in all over -- including India and across the globe.

**Abhishek Jain** So how much market share you gained in the first quarter in the Europe and U.S.?

**Rajiv Poddar** No, we don't have the individual breakup.

**Abhishek Jain** Okay, sir. And your contribution from Europe is going down in percentage and absolute terms and the contribution...

**Rajiv Poddar** It is going down in percentage terms, but not in absolute terms.

**Abhishek Jain** Is it because of the...

**Rajiv Poddar** Percentage has grown, so percentage will go down but the absolute term is growth. There is a growth of -- about 14% growth is there on number terms as on absolute numbers.

**Management** So Europe on our YoY basis has grown 14% in volume terms. There is no degrowth in terms of volumes. Of course, as a contribution to overall sales, it's come off.

**Abhishek Jain** I'm talking about quarter-on-quarter basis.

**Rajiv Poddar** Quarter-on-quarter basis.

**Madhusudan Bajaj** So Q4 and Q1 are never to be compared...

**Rajiv Poddar** Because they're cyclic businesses. So you can't compare the quarter-on-quarter.

**Abhishek Jain** Okay. So you have lost some volumes in the Russia and the Ukraine. So what is the percentage of that?

**Rajiv Poddar** No. I mean that's not a big part of Europe for us at the moment. So we do not see any major impact on that.

**Abhishek Jain** Okay. And my last question is related with the Indian market. In this quarter, we have seen a higher growth versus the other markets. Is it the reason of the sharp contraction on the margin side also?

**Rajiv Poddar** Is it the...?

**Abhishek Jain** Is it also a reason for the sharp contraction in the margin side? So how much difference in margin of exports versus domestic, sir?

**Madhusudan Bajaj** Domestic is always 2%, 3% cheaper as compared to export.

**Moderator** The next question is from the line of Senthil Manikandan from ithought pms.

**Senthil Manikandan** My question is from the competition perspective. We have seen a couple of major players were expanding their capacity on the off highway tires in India. And also a new player has put up a full greenfield plant in Gujarat. So they're also planning to export some here and the business model is very similar to the company. So if you could just share your thoughts on the same thing.

**Rajiv Poddar** So what we are saying is -- at BKTthe blending that we have done over the last five, six, seven years has really helped us grow. Our brand equity has grown, brand recognition has grown, brand acceptability has grown.

And with the current market of 6%, we believe there is an opportunity for us to grow in our business for which we are looking and seeing how we can further capitalize on this opportunity. And that's why we are looking at expansions.

**Moderator**: The next question is from the line of Ashutosh Tiwari from Equirus Securities.

**Ashutosh Tiwari**: You mentioned that the stock position was 20% higher. So is it like quarter-on-quarter higher? It is compared to pre-COVID normal stock levels you had at 20%.

**Rajiv Poddar**: It's between year-on-year quarter -- compared to the 2 quarters yearly.

**Ashutosh Tiwari**: So any color in terms of months, how that would be in terms of day-to-day stocks right now versus normal pre-COVID?

**Rajiv Poddar**: So they normally keep -- they would -- ideally we'll take between two and up to three months, and we believe it's slightly higher than that.

**Ashutosh Tiwari**: Okay. And secondly, how do you see the competition with Chinese companies? I think in-between because freight costs went up a lot from China. Their volumes have come down across different markets. Do you see that increasing now? Are you seeing any trend on that?

**Rajiv Poddar**: No, we are not. At the moment, we are not seeing any trend in that.

**Moderator**: The next question is from the line of Ronak Sarda from Systematix.

**Ronak Sarda**: Sir, a couple of data points. Firstly, the Bhuj production and the raw material cost synthetic rubber and steel wire, if you can share?

**Rajiv Poddar**: So we don't give franchise breakup, but total production is about 84,000 tons.

**Management**: And in fact rubber cost varies because two different variants are there, INR 160- 165 to INR 200 per kg.

**Ronak Sarda**: Okay. And steel wire?

**Management**: Steel wire is around INR 110 a kg.

**Ronak Sarda**: Okay. And sir, did I hear it correct? Did you say net debt at INR 750 crore?

**Rajiv Poddar**: Yes, yes, approximately.

**Ronak Sarda**: Okay. But because in Quarter 4, the net debt was around INR 1,900 crore. So is there a very sharp movement?

**Management** There is a gross debt of INR 2,750 crore...

**Rajiv Poddar** INR 1,900 crore was the gross debt.

**Management** So gross debt today is about INR 2,750 crore, and we have cash and cash equivalents of INR1,975 crore. So broadly, it's about INR 750 crore of net debt.

**Ronak Sarda** Got it. My mistake. And secondly, sir, if you can help us understand now how is our exposure to USD denominated costs, both on operating level and capital investment side. And is that also a big part in overall realization and costs are moving both in tandem and as the margin looks optically lower? So if you can just help me understand what are the USD-denominated costs right now?

**Management** I think there is a natural hedge here between the dollar expenditure and dollar earnings. So broadly, there is no structural change in terms of how the currency is impacting the business.

**Ronak Sarda** INR depreciation with USD that would inflate both our top line and the expense side as well, right?

**Management** Correct. But from a margin perspective, it's a major challenge.

**Ronak Sarda** And lastly, again, on the demand scenario. So I mean, based on the second half run rate, then do you believe it can cross upwards of 1,75,000. Is that the kind of estimate are we building in given Q2 will be weak? Or despite when you say Q2 week, is it more like a substantial drop in volumes quarter-on-quarter? How exactly do you define where any see it will be tepid?

**Rajiv Poddar** So we don't want to put a number to it. We have given the directional movement and we are quite confident of that.

**Moderator** The next question is from the line of Abhishek Singhal from Naredi Investments.

**Analyst** When will you start to pass on the increase the cost of raw material to the customer? And the second thing is Carbon Black plant is starting in Q3 FY '23. So how much of revenue will increase and also how much margin will increase from this Carbon Black plant?

**Madhusudan Bajaj** Carbon Black plant turnover, we will be having approximately INR 800 crore in this year, and margin will be at industry average.

Abhishek Singhal Sir, what is margin?

**Madhusudan Bajaj** As per industry average.

Abhishek Singhal And when will we start pass on the cost of raw material?

**Madhusudan Bajaj** cost of production, we were already passing from the last many quarters, and now further cost passing is difficult because raw material prices already started moving downwards. So we will wait for the downward passing. First, we will absorb whatever we have -- could not be passed. And thereafter, we will start passing if this continues downwards.

Abhishek Singhal And sir, our thermal power plant...

**Rajiv Poddar** We don't have a thermal power plant.

Abhishek Singhal Okay. So is the 20-megawatt plant is renewable energy plant currently?

**Madhusudan Bajaj** We have currently two plants. One is already operating and another, we will be operating in quarter Q3.

Abhishek Singhal It is a thermal power plant or renewable energy?

**Madhusudan Bajaj** It will be from the carbon tail gas. Whatever carbon we produce, there we will be getting tail gas. So we will be utilizing the tail gas. And because until tail gas was not available, we use the coal.

Abhishek Singhal So where we get coal?

**Madhusudan Bajaj** Coal, we buy from the market, Adani Port or many people are sending us.

**Moderator** Next question is from the line of Nishit Jalan from Axis Capital.

**Nishit Jalan** Yes. Sir, just one small question. Typically, we don't have an industry body which gives the market share data. So when you say 6% kind of market share. Do you do any calculation from your side? Or do you get any third-party data to track these market share?

**Rajiv Poddar** There are trackers. There are agencies who do tracking. They have estimates and our own knowledge and research is also on where we can track roughly where we are and what the numbers are.

**Nishit Jalan** Okay. Sir, because where I'm coming from also is if I go back three years in time, then also we were talking -- I used to talk about 5%, 6% kind of a market share. So have we not gained any market share in the last three, four years?

**Rajiv Poddar** What we used to talk earlier was 4% to 5%. And now we are talking 5% to 6%. So market has also grown, and we have also grown. So it's a combination of both.

**Nishit Jalan** And sir, would you have any sense as to what would be the kind of market share that the top 3 players would have in the market and all? I would assume that Michelin will be the leader and Yokohama would also be another big player. But any sense on the market share of the top 3 players that you compete with?

**Rajiv Poddar** No, I can give you my numbers. I don't have their data.

**Moderator** Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing remarks. Thank you, and over to you.

**Rajiv Poddar** Thank you to everybody for coming on this call, and we hope to see you next quarter. Until then, stay safe. Thank you. See you.

**Moderator** Thank you very much. Ladies and gentlemen, on behalf of Anand Rathi Share & Stock Brokers, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines. Thank you.