"Balkrishna Industries Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2021 earnings conference call of Balkrishna Industries Limited hosted by IIFL Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participants' 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 this conference is being recorded. I now hand the conference over to Mr. Joseph George from IIFL Capital Limited. Thank you and over to you Sir!

Joseph George: Thank you Margaret. Good morning everyone on behalf of IIFL, I welcome you all to the Q3 FY2021 results conference call of Balkrishna Industry. I also welcome to the management of Balkrishna Industries to this call, I request Mr. Rajiv Poddar, Joint Managing Director to make the opening management remarks which would be followed by Q&A. Over to you Sir!

Rajiv Poddar: Thank you Joseph. Good morning everyone I welcome you all to the Q3 financial year 2021 earnings call of Balkrishna Industries Limited. Hope all of you along with your near and dear ones are safe and healthy. Along with me I have Mr. Bajaj, President Commercial & CFO and SGA our investor relationship advisors.

Let me begin with performance updates, the demand continues to be strong in agricultural segment across geographies. In other segments demand has remained stable post the recovery in the end markets of industrial, construction and mining segment. With nine months for the financial year 2021 volumes of 1,59,130 metric tonnes we are increasing our guidance for the financial year 2021 and expect to end financial year 2021 with sales volume between 2,15,000 and 2,20,000 metric tonnes per annum. We strongly believe that this demand trend is likely to continue in financial year 2022 and years to come. It is therefore important for us to plan our capex now, so that we do not face capacity constraints from financial year 2023 onwards.

Before I talk about our new capex plan, I will quickly give a snapshot on the status of the ongoing capex. First, Ultra large giant tyre plant at Bhuj, project for 51 and 57 inch ultra large giant all steel radial tyre plant of 5,000 tonnes per annum has been completed the tyres are under various stages of testing.

Second, Carbon black second phase at Bhuj, the trial production was commenced in March 2020, this was ahead of its schedule with this our total achievable capacity stood at 1,15,000 metric tonnes per annum. Post lockdown the plant has been running at full capacity as third-party sales has also commenced and there is strong acceptance on the quality of our product.

Third, Greenfield tyre plant at Bharuch, the replacement tyre project for 30,000 metric ton per annum is likely to commence in Q1 of FY2022. We expect gradual ramp up in the quarters to come.

Fourth, US project, the board of directors has decided to shelve the said project.

With this, let me now talk about the new capex plan of Rs.1,900 Crores which the board has already approved yesterday.

Firstly, there is a capex of up to Rs.800 Crores for a tyre plant. Capex spent towards debottlenecking and Brownfield expansion along with addition of balancing and ancillary equipment at Bhuj. The expansion will add a capacity of 50,000 metric tonnes per annum. This capex is envisaged to be completed during half year of FY2023. The completion of the capex will result in our total achievable capacity for tyre plant to reach 3,35,000 metric tonnes per annum. The payback period for this capex is envisaged to be around four years.

Second a capex of up to Rs.650 Crores for carbon black and captive power plant. The response to our carbon black product has been very good and we have been successfully adding many customers. Our current achievable capacity is 1,15,000 metric tonnes per annum of carbon black. With the success of this project, we are increasing our carbon black capacity at Bhuj to 2,00,000 metric tonnes per annum, which also includes 30,000 metric tonnes per annum of high value advanced carbon material targeted for third party sale with state-of-the-art machinery and the power plant.

The power plant will have capacity of approximately 20 megawatt and is required to meet the increased tyre capex as well as the new carbon black capex. In addition to this the carbon black facility will also allow us to complete our full internal sourcing even on the enhanced capacities in future for our tyre manufacturing, leading to better control over supply chain and improving the quality of our tyres. The total capex spend is envisaged at Rs.650 Crores and will be completed in the first half of FY2023. We expect a payback of around 5 to 6 years on this investment.

Third, capex of about up to Rs.450 Crore for modernization, automation and technology upgradation of equipment and material handling; the capex will be spent over modernization, automation, technology upgradation of certain existing equipment, better automated material handling systems, shift of certain manual processes to automation etc.

This will be done at the existing facilities at Bhuj and particularly at Rajasthan where we established two of our plants in 2001 and 2006. There will be no capacity enhancement but improvement in quality and efficiency. This capex will be completed by a first half of

FY2023. This capex will improve our margin profile and accordingly we expect a payback of around five to six years on this investment.

We envisage the entire capex of around Rs.1,900 Crores to be funded by internal approvals and some debt is needed.

With this, I now move on to operational highlights. Our sales volume for the quarter was 59,810 metric tonnes, a growth of 26% year-on-year. For the nine months of this financial year, the sales volume stood at 1,59,310 metric tonnes a growth of 11% year-on-year. Our standalone revenue for the quarter stood at Rs.1,497 Crores, which includes realized loss on foreign exchange pertaining to sales of Rs.8 Crores.

For the nine months of this financial year, the revenue stood at Rs.3,990 Crores, which includes a forex exchange loss pertaining to sales of Rs.22 Crores. In the nine months of this financial year 49% of the sales has come from Europe, 23% has come from India, 15% from America's and the balance from Rest of the World.

In terms of channel contribution, 71% was contributed from replacement segment in this nine months of this year while OEM contributed to 25% of the sales with the balance coming from offtake. In terms of category agricultural contributed to 64% percent and OTR contributed to 33%, the balance came from the other segments. This is for nine months of this financial year.

The standalone EBITDA for the quarter stood at Rs.477 Crores with a margin of 31.9% while for the nine months EBITDA stood at Rs.1,256 Crores with a margin of 31.5%. Other income for the quarter stood at Rs.51 Crores, which includes unrealized gain of Rs.15 Crores and other income from investments of Rs.36 Crores. For nine months other income stood at Rs.91 Crores, which includes unrealized loss of Rs.5 Crores and other income from investments of Rs.90 Crores.

Coming to the net forex items, for the quarter we incurred a net forex gain of Rs.15 Crores, which includes realized gain of Rs.60 lakhs and unrealized gain of Rs.14.5 Crores. For nine months, we incurred a net forex gain of Rs.3 Crores, which includes realized gain of Rs.8 Crores and unrealized loss of up to Rs.5 Crores. Profit after tax stood for the quarter was recorded at Rs.322 Crores with a margin of 21.5% while for nine months it stood at Rs.783 Crores with a margin of Rs.19.6 Crores. Our gross debt stood at Rs.842 Crores and our cash and cash equivalents were at Rs.423 Crores implying a net cash position.

The board of directors has declared a third income dividend of Rs.5 per equity in addition to Rs.7 per equity share it had paid in the first half of the financial year.

With this I conclude my opening remarks and leave the floor open to questions.

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

Siddhartha Bera: Thanks for the opportunity and congrats for a great set of numbers. My first question is again on the capex side, so just wanted to understand your thoughts on the carbon black project. We already had some extra supply available for sales to external parties and now we have expanded it further, so first thoughts on how are we thinking about this and if we will now continue to pursue this as a business model or how to think about the future ramp up and second again on the Tech Capex, if you can quantify, how much benefit on the margin side can we sustainably get after we are done with the capex and going ahead also if you can directionally let us know that, if any, more such capex will be required from here on?

Rajiv Poddar: I will answer your first question. On carbon black side, we have been seeing a good demand for carbon black; our customers have been accepting our quality very well, so we have decided to enhance our capacity to further fulfill the market. Also with BKT enhancing its own production lines and looking at some future requirement we would need to set up our own line of carbon black thereby we have looked at getting the full thing completed. Further the payback period is relatively good, we are looking at about 5 to 6-year payback in carbon black.. Regarding tyre plant on your second question the payback is about four years.

Siddhartha Bera: I was talking on the technology upgradation, which we are doing Rs.450 Crores?

Rajiv Poddar: So on that we are expecting a payback of about five years, basically you will have improved quality so that will be able to allow you to produce higher quality tyres, better tyre, better end user results and there will be savings on automation, which will be brought in by manpower reduction & manual processes being shifted to automation. In all we will have savings over the years and envisage a payback of five years.

Siddhartha Bera: Is it possible to quantify what will be the number of higher margins or better margins we can get from this?

Rajiv Poddar: We are working on it and it may not be always easy to justify it in terms of margin because it will have quality impact also so your tyres improving you will be able to produce higher category tyres, high technology tyres so those kind of things will happen, we are yet working out on the exact numbers but as mentioned earlier we expect a five-year payback period.

Siddhartha Bera: Okay on this carbon black so after, do we think that it can be expanded further depending on if there is strong demand for our product in the market?

Rajiv Poddar: At this moment, we are looking at these numbers, once this is done or once it is out rolling and we reach capacities we will be open to seeing what can be done or not, but it is too early to take a call of the future now.

Siddhartha Bera: Okay understood Sir.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just one clarification needed here when your core capex has a payback period of four years and your maintenance capex or let us say the technology upgradation capex is taking payback of five years and when you did already a capex two years back, what is that technology which has suddenly has changed, are we putting robots in the plant what has changed, which is leading to such high capex if you can elaborate?

Rajiv Poddar: There are two or three things that we are doing, one as the markets are moving more towards radialization and higher technology we need to upgrade the equipment which we are doing. On the other aspect of automation, we are doing for material movement and material handling systems, we are looking at automation to reduce manual touch points over there so those are the kind of work that we are proposing to do. We may not particularly be looking at robots but we may be looking at some sort of material movement systems, which will help us reduce manual touch points.

Nitin Arora: Sir material handling itself is an automatic machine right, so manual touch points in any which way is because the machine right so manual touch points any which way would be very less?

Rajiv Poddar: We do not have such high tech material movement systems in our plants and that is what we are looking at doing, which will reduce these touch points as we install these.

Nitin Arora: All right and Sir second in terms of market share, can you elaborate a little bit both in U.S. and Europe, how our market share has moved and how you are looking at least for the next one year in terms of market share?

Rajiv Poddar: Our market share continues to be in the vicinity between 5% and 6% that we have been looking in gradually as our capacities are increasing our acceptance is going up and brand is becoming stronger. We look to take this up further and as our vision is to become a 10% market share holder in the marketplace so we are working towards that but currently we are between 5% and 6%.

Nitin Arora: Thank you Sir. I will come back in the queue.

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

Vimal Gohil: Thank you for the opportunity. Sir just on a carbon black plant, what would be the incremental carbon black volume available to us for third party sales post completion of the new plant that you have envisaged?

Rajiv Poddar: We are going to be roughly between 25% and 30% of the total capacity which would be available for third party sales.

Vimal Gohil: Sir, profitability of carbon black would be somewhere near to company average?

Rajiv Poddar: It will be not be as much as the company average, it will be lower and which will be between 15% and 16% which is similar to the industry average for carbon black.

Vimal Gohil: Is it that the gross up turnover so fixed asset turnover of this business maybe is probably lower than company average, which will probably make it ROCE neutral for us?

Rajiv Poddar: Yes, it will but also if you see that between 75% and 80% of the material is for self-consumption so that way you will get benefit because you will have other advantages of being near to having your own plant in terms of quality which is the reason why we actually put this up.

Vimal Gohil: Sir the point where I am coming from is maybe for the reason why you are going for third party sales if that is ROCE neutral at least or maybe ROCE accretive only then will it make sense to go for third parties?

Rajiv Poddar: Yes, so it is going to be neutral.

Vimal Gohil: Sir this Rs.1,900 Crores capex apart from until 2023 so what would be our maintenance capex over and above this or does this include the maintenance capex as well?

Rajiv Poddar: Maintenance capex will be over and above that, I think that ranges in the normal range between about Rs.150 Crores to Rs.200 Crores which will continue pear year.

Vimal Gohil: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Nikunj Gala from Principal AMC. Please go ahead.

Nikunj Gala: Good morning everyone. My first question is on Bhuj expansion. When we did our Greenfield at Bhuj 1,40,000 MTPA of effective capacity we incurred approximately Rs.2,800 Crores of capex which is coming out to be Rs.2 lakh capex per tonne and now when we are doing the Brownfield expansion of 50,000 tonnes and we are incurring Rs.800 Crores so which is like 1,60,000 capex per tonne so ideally this Brownfield should have come at a lower rate than we are doing right now so just wanted clarity on that?

Rajiv Poddar: I think very valid question. We have also looked at that why it is so high because the new plant will have already incorporated some of the automation modernization that we are doing in the older plants so those will be incorporated in the new plant from day one itself, the machinery will be more automated so reducing the impact of manual touch points, reducing the impact and reliance on men and quality improvement will be there. So those things which we are doing now is already going to be incorporated in the Brownfield project, it may be a Brownfield but a lot of those upgraded parts will come so if I would look at incorporating that in the way back in the Greenfield, the costs would have been high compared to what we spent.

Nikunj Gala: Thank you and secondly Sir on the carbon black front, when you are saying your effective capacity would be 2,00,000 tonnes and you are saying only 25% to 30% would be for the third party sales, which is like 60,000, so 1,40,000 you will be using for internal purpose. So when you are using carbon black for internal consumption your production should be at a 5,60,000, which is like longer than when it can be achieved so for the immediate period say for the next two to three years your capacity when this plant comes up, you have the very high additional capacity for the third-party sales right?

Rajiv Poddar: So basically, if you see that from 2,00,000 tonnes you remove the 30,000, which is your advanced carbon black so from the 1,70,000 tonnes you look at 30% for third party sales and then you look at BKT's consumption, you will get the math then, so if you have to remove that 30,000 you look at it from 1,70,000 and if I reduce 30% so you are looking at 1,20,000 approximately.

Nikunj Gala: Okay, so just wanted to understand the rationale like what is the urgency of doing it getting into the carbon black though our requirement is very limited in that case because getting into the ROCE dilutive where you can generate a better ROCE in your tyre business itself so just wanted to understand the rationale for getting into the more ROCE dilutive business?

Rajiv Poddar: I will answer your question in two parts. Firstly, we are not doing expansion that of carbon black at the cost of tyre plant or core business, which is tyre, which will always remain the core. What we are saying is that there is a strong demand as our customers are accepting our quality well so we are looking at this. So tomorrow when the tyre plant expansions come in maybe in future ,at that stage you are not looking to go out and source again carbon black from the third market, so we are looking to create that capacity today. Anyway we would have to do a power plant also for the new Brownfield project so it sort of co-integrates itself because for the tyre plant, power would be required for that and for the power plant you need some fuel so then you burn the fuel and generate carbon black, that is how is how the whole circle goes, In the interim if we get a good opportunity to create your own capacities for future and at the same time be able to service the market then, why not.,. Also, a carbon black cannot be done in stages of 10000, 20000, 30000 and it needs to be done of a certain size to give that economies of scale, so then you have got to do it at some stage. We said, we might as well take it all together and create the reason for the power plant to be beneficial and used for the power for the tyre plant so it is creates that circle very well for us.

Nikunj Gala: Thanks a lot.

Moderator: Thank you. The next question is from the line of Gaurav Khandelwal from Mirae Asset. Please go ahead.

Gaurav Khandelwal: Thanks Rajiv for the opportunity. Rajiv, is there a difference between achievable capacity and rated capacity of carbon black plant, the reason I am asking this question is because in the earlier interaction with management youhad guided that the phase one carbon black is 60,000 tonnes and phase two is 80,000 tonnes so we were under the impression that the total carbon black capacity is 1,40,000 tonnes?

Rajiv Poddar: Yes, so that is correct that is the rated capacity of the equipment's installed but what I am talking now is the achievable capacity, so achievable capacity would be about 1,15,000 capacity that is the one which you can actually produce because there are grade changes which are required, and every year you have some shutdown to be done as per norms of the pollution boards etc., so whenever you have those things and the achievable capacity comes to 1,15,000

Gaurav Khandelwal: Just this question was asked by earlier participant also so on 3,35,000 tonnes I think your carbon black requirement internally should be as per my understanding should be around 85,000 to 90,000 but then also you will have 1,10,000 or broadly 1,00,000 carbon black capacity to be available for outside customers but I think you have guided a number, which is much lower so I could not understand the difference between?

Rajiv Poddar: Here our achievable capacity requirement for our own self with enhanced capacity should be about between 1,00,000 to 1,10,000 tonnes depending on the grades of tyres that we make like mining tyre, construction tyre.So we have envisaged that we have kept a capacity of between 1,10,000 and 1,20,000 roughly for captive use and the balance for thirds market and of this roughly 30,000 which is the advanced one will be for 100% third party sales.

Gaurav Khandelwal: Just one last question in that sense I mean this question was also asked by earlier participant so looking at next four or five years what is the broad plan for carbon black is it a new line of business altogether that you are seeing for yourself and how much more capital you are willing to commit to this business?

Rajiv Poddar: Firstly our core business was tyre, today is tyre and will remain tyre so we do not want to move out of our core but at the same time, what we are seeing is some sort of a tailwind behind us on the carbon black because mainly we are doing for self consumption and then we are keeping some balance because there is a good demand and the customers are coming to us asking us for carbon black. Also we need to generate some power for the expanded capacity at Bhuj so for that fuel we are using the oil as a fuel as opposed to some other fuel whereby we are also generating carbon black. It is not that we are looking at it as a standalone business.It is a business calculated move that where your backward integration is coming and you are getting savings in your main business that is why we are doing it. Now going forward I cannot make such forward statements where we say that in five years down the line how much more will you put or not put, we will take a call that time but it is purely a backward integration where we have some tailwinds behind us and the investment is giving us a fairly decent return and we are getting a good business sense in our tyre plant. Also, we are able to control the tyre quality better, the raw material quality today in times when there are shortages we have our secured quality supply so all those things are giving us the benefit that is why we are looking at it.

Gaurav Khandelwal: Just as per your internal calculation what would be the ROCE of the plant existing capex that you have already done what would be the ROCE of that plant?

Rajiv Poddar: The payback which will be between five to six years.

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

Ashutosh Tiwari: Congrats on a strong set of numbers. I think we are seeing the call as well the main concern is coming on this carbon black plant now so if I look at the two listed companies which are again carbon black business, their ROCE last 10 years obviously last three to four years have been decent ROCE, but there was a period of five years FY2012 to FY2016-17 when ROCE was single digit.But probably when you see more in its business which is very cyclical and low ROCE when basically it goes down the way so that is the concern that we have that obviously maybe near-term it is looking good but is it really something which we can generate similar or even they say three-fourth or half of the ROC over the cycle?

Rajiv Poddar: I cannot comment about competitors but for us we are looking at it as a backward integration for which we are creating capacities along with that we have a power requirement which we are able to fulfill by this additional capacities and there is a demand so if you look at the whole thing that is why we are seeing a good ROCE on this and we are expecting it to give us 5 to 6-year payback in the current scenario.

Ashutosh Tiwari: Sir secondly if I look at, we spend almost Rs.425 Crores for that 1,15,000 tonnes in the last carbon black capex and this time around is almost for 85,000 tons it is almost Rs.650 Crores including power plants?

Rajiv Poddar: So last time we did not have to do the power plant since we already had it in our tyre plant so that is an additional capacity of 20 megawatt which is being created so that capex is also coming and then in this current capacity 30,000 is on the high advanced carbon black also so that costing will also be required to be factored.

Ashutosh Tiwari: So, is in margin very high advanced carbon black compared to normal?

Rajiv Poddar: It is higher than regular one for sure but we are getting into not the high end one, we are getting into slightly higher version to what we are doing currently so over rubber and plastic grades and we have already in our labs developed the carbon black for those mid-levels and our quality and acceptance is there in that also so that is why we have seeing that. As regard the margins we expecting to be between 4% and 5% better than the lower and lower grade supplies.

Ashutosh Tiwari: Sir do you have a separate thing what are the capex for this advance carbon black and what is for the power plant?

Rajiv Poddar: We are working out on the breakup because we just got the approval yesterday, so we are working on that.

Ashutosh Tiwari: Thanks a lot, and all the best.

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

Arvind Sharma: Thank you for taking my question. Sir first question just beyond numbers if you could explain you have done in past the modernization part but will it be a recurring thing now because we just had a modernization in one of the earlier plants which was very old but now that you are saying that the tyre technology is improving by the year so is this modernization a recurring thing now on and do we expect a modernization every three to four years because that is a pretty high capex for modernizing a plant which was already working quite well at a very high profitability so that is part one of the question and I will probably come up another question after this Sir?

Rajiv Poddar: Basically if you see that our plants in Bhiwadi & Chopanki in Rajasthan area were as old as 2001 and 2006. So once we first we took up the Aurangabad plant for modernization and we are sort of seeing some benefits that we are expecting in the quarters to come, newer machinery and newer more automated stuff coming in the plant will have its own impact and benefits so that is the reason why we are looking at it. Also as technology is moving more towards radialization, the bigger tyres so we are looking at that and we said rather than becoming redundant four or five years later if you look at it today and with less money you can achieve similar milestones then what we have to do so. We have learning from in the past and seeing that it gives us benefits and that is why we are taking it forward. Now if the technologies and things keep on changing I do not think it will change as quickly as three to four years but yes between seven to ten years we should or may expect some sort of further changes coming up or modernization coming up in the machinery etc., so it may not be a recurring thing, every two to three years or three to four years but over time maybe seven to eight years you may see one cycle of this coming in.

Arvind Sharma: Thank you so much and to explain the impact on profitability if any in terms of margin?

Rajiv Poddar: For the automation?

Arvind Sharma: For the modernization

Rajiv Poddar: For modernization we are saying that again we are estimating our payback to be within five years so that is the kind of impact it will have on our bottomline.

Arvind Sharma: Sir, given your high expectations from carbon black especially third party is it possible that over next two or three years unless your overall tyre capacity increases massively carbon black revenues could be a decent part of your topline so if possible going forward if you could share the carbon black revenues as well because it kind of tends to inflate the simplistic ASP of revenue divided by tonnage so because I guess maybe next year it says carbon black would be around 10% to 12% of your revenues if not more so if possible if you could do that going forward or if you have the numbers right now for third quarter carbon black revenues versus total revenues?

Rajiv Poddar: I think we will consider your point from next year. As far the current level it is less than 2% of the overall sales so it is not really having that kind of an impact but yes as the sales go up we will definitely give the numbers separately.

Arvind Sharma: 150 will go to 200 and the commensurate increase in third party would be much higher so I was coming from there?

Rajiv Poddar: We will consider that and from next year once this third phase of line is up and running then we may do but currently it is less than 2% of the overall sales so it does not have that kind of impact.

Arvind Sharma: That is on capex, as one question on the demand outlook, you have given a very strong demand for FY2021 any outlook or anything you can share about FY2022 initial in Europe and the US?

Rajiv Poddar: I think as I mentioned that we are seeing the demand to be strong but further guidance or numbers or anything that we could give you only after we end this financial year.

Arvind Sharma: Fair enough. Thank you so much for taking my question.

Moderator: Thank you. The next question is from the line of Kaushal Maroo from DSP MF. Please go ahead.

Kaushal Maroo: Thank you for the opportunity. Just a few more questions on the carbon black business issue. There has been a sharp improvement in the margins of carbon black as an industry and we are currently also looking at 15% margin, but this used to be like almost zero negative five years back, are there any structural tailwinds to the carbon black industry, which is helping the sustainable margins of 15% which you expect for the next five years?

Rajiv Poddar: Yes, there has been structural and strong tailwinds, there is a strong demand which is there and then looking at all those things we are seeing that this business will give us this kind of a return.

Kaushal Maroo: Is there any sourcing from China which has got blocked and because of which there are opportunities in the domestic market and are there any benefits from PLI, which the government will announce on this business for you?

Rajiv Poddar: No not at this stage.

Kaushal Maroo: Got it and on this advanced carbon is it something for internal usage as well why are you currently sourcing it from outside?

Rajiv Poddar: No advanced carbon is purely at this moment is third party sales but not for our internal use.

Kaushal Maroo: It is not used in tyre making?

Rajiv Poddar: No. Tyre grades because of our own self consumption we have already been able to upgrade our own carbon black for self-consumption, but they do not classify as higher grade auto or advanced grade.

Kaushal Maroo: The last question is on Bhuj we have brought in a carbon black plant there and also taken this new round of capacity expansion does it have further scope for Brownfield expansions in the future or we will have to look for new Greenfield after this 3,35,000 capacity feedstock?

Rajiv Poddar: No, we have some availability of line around that so once we decide what is the capacity that we will be needing, what is there then we can take a call whether it will fit in here or we need to look at a Greenfield so it is too early to comment but depending on the quantity of capacity that we are looking at we can explore either some capacities at Bhuj or then a possible of a Greenfield plan but again it is too early as I said because we have to first set up this 50,000 get that in the marketplace and then grow from there.

Kaushal Maroo: Thank you so much.

Moderator: Thank you. The next question is from the line of Sachin Trivedi from UTI. Please go ahead.

Sachin Trivedi: Sir most of the questions are answered just maybe slightly repetitive but you alluded to the fact that the old capacities are getting automated and the new capacity also will be substantially automated, just trying to understand is this resulting in material cost saving on the labor force or is this basically a quality issue that we are trying to address or maybe how do we justify internally and the financial metrics if you can just help us understand that?

Rajiv Poddar: It is both because the moment you have processes being automated or processes being done so your reliance on the labor force goes down where skill labor goes down so all those things will come up and also certain material movement and manpower issues will come down because they will be sort of automated so it is a mix of both and we see that the payback for this kind of automation will be in five years period and could be too early to say but could be between 100 to 150 basis points on enhanced capacity.

Sachin Trivedi: Sir just trying to understand here is that when you do the financial metrics in-house are you accounting for better business because of the quality or are you accounting for savings on the employee cost and other expenditures?

Rajiv Poddar: I think as I said it is both because you will get quality input also because the chances of error proofing improve because it is machine made as opposed to manmade so the machine is doing a lot more of the skilled activities as opposed to man doing the skilled activities so that is the kind of modernization in the machine that we are looking at, so your chances of error proofing improve then that will have an impact in the marketplace because more and more tyres will be consistently manufactured and the material handling part will also come in because that will then save some labor it will reduce touch points so it is going to be the impact of both.

Sachin Trivedi: Sir the next question is with respect to the US capex I guess maybe a couple of years back when we have announced that capex one of the justification for that capex was that we could have win more business if we are closer to the client so now that we have decided the way of cutting that or not doing it is there any material plant that we have already put in place so that we do not lose out on that optionality if you can share anything on that?

Rajiv Poddar: We are working out the possibilities of making our distributors stronger and getting them to stock more material so we are working closely in with our channel partners to do that so we do not lose our marketplace.

Sachin Trivedi: But working closer to the client that is not going to hamper us or any color that you can show?

Rajiv Poddar: Basically what we are doing is instead of setting up our facility there since we have shelved that, we have spoken to all our channel partners, our distributors and we are making a stronger relationship between them and BKT so that they are in their warehouse calling more material, planning better we are working with them closely so that they have sufficient stock to feed the dealers further and reach the end market. We are working closer with them as opposed to creating a facility closer to them. We are going to be using their facilities more to reach the end users.

Sachin Trivedi: One final question and maybe I am also missing some color here but you said in your opening remark that your maintenance capex is going to be let us say Rs.100 Crores to 200 Crores each year but when I look at the line item actually that is the run rate of depreciation each quarter so I am just confused that is that in future do we should we expect a substantial jump in our depreciation run rate or is just that or the accounting policy for us is maybe should have been more aggressive or any color that you can give?

Rajiv Poddar: We are not seeing a big jump in such sense on the depreciation, but we expect it to be stable we are not seeing or enforcing a big jump over there.

Sachin Trivedi: Thank you.

Moderator: Thank you. The next question is from the line of Neelesh Dhamnaskar from Invesco Mutual Fund. Please go ahead.

Neelesh Dhamnaskar: Thanks. Some of my questions have been answered, but on this advanced carbon material so just you said you will give me capex numbered separately for this maybe we would also want to know and secondly these products have you already developed them and they have been approved or all this will start post the commissioning of this project?

Rajiv Poddar: We have developed some very small trial lots in our own labs and with the feedback of those test samples that is why we are so confident of these 30,000 high advanced carbon black so it is not very high it is a mid-category just a couple of categories above the grades that we are using for tire and those samples have been made and have been received well and we are looking to now pursue that further.

Neelesh Dhamnaskar: Second again more on the operational aspects so this quarter broadly I could see the realization trends were what a big weak I think just about flattish or the percentage down the realizations were on a Q-o-Q basis so and in light of the fact that the raw material prices have been going up as well as freight costs so what is your take on that and have you taken sufficient price increases to alleviate this rising cost pressure?

Rajiv Poddar: In the starting of this quarter, we had taken some price increase to negate these enhanced costs and as you said over a period of time our sustainable EBITDA levels would be between 28% and 30%.

Neelesh Dhamnaskar: What is the extent of price hike?

Rajiv Poddar: The price hike would be between 2% and 3%, which is already kicked in from the start of this year quarter.

Neelesh Dhamnaskar: Thanks, and all the best and it will be good that if you give more granular breakup of the capex that will help us in our own math and decision making?

Rajiv Poddar: Sure.

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

Nishit Jalan: Sir my question is also on capex you talked about Rs.450 Crores modernization capex and a five-year payback, which means almost Rs.90 Crores accretion to earnings you are looking at from this capex and your topline is around Rs.6,000 Crores which means almost 1.5% incremental margin at the overall company level so do you think that this plant will lead to margins above our overall guidance of 28% to 30% or do you think that these kind of capex are necessary just to maintain the margins between 28% and 30%?

Rajiv Poddar: Firstly, you are right and if you recollect my earlier statements where I said that one and a half basis points is what we are looking at and these activities are being done so that we can sustain these levels and retain the levels that we have been enjoying so that is why it is being done and that is why we are confidently saying that if we are doing these activities to reach a sustainable level of 28% to 30% and if we do not do this then over a period of time we will lose out in the marketplace, our products will become outdated, we will not be able to give the high-end quality or high-end technology as the western world players are moving so to be in line with them and to continue to be a leader in this field. We have to be ahead of the curve we cannot be a follower or we cannot be lagging too far behind so if we do not do this you are right that we will this is needed to be done to maintain these levels.

Nishit Jalan: Okay Sir, fair point, so secondly as others very quickly on this advanced carbon black capacity, what is the end usage in terms of industry or what type of customers will be targeting with this kind of capacity?

Rajiv Poddar: So basically, we are working out on that it will be print and ink grades and certain high quality plastic grades so which categorizes mid-level but for us compared to the current tyre grades that becomes a little higher that is why we are calling it high advance grades.

Nishit Jalan: Okay Sir that is very one last question on though after this expansion of 50,000 tonnes and 2,00,000 tonnes of carbon black capacity that we have set up, do we have scope for more Brownfield or the next phase of capex will be more Greenfield in nature?

Rajiv Poddar: Yes, so as I told you earlier that we have some land and once we have this capacity set up we looking at what is the next round of expansion that we need to look at we will decide whether this current land can accommodate that or we will need to look at a possibility of exploring a Greenfield project but at this stage it is too early to comment on whether we will go for a Greenfield or another Brownfield at Burj, it is too early to say but yes we have some land available with us even after these expansions.

Nishit Jalan: Thank you so much.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir just two questions, first question would be so how much time will it take in H2 FY2023 once you get your carbon black plant ready how much time will it take for you to ramp this up to full utilizations?

Rajiv Poddar: So, I think maybe looking at then demand situation we should be ready in quarter's time.

Prateek Poddar: Okay and Sir one quarter you will be able to ramp up to full utilizations with it?

Rajiv Poddar: Yes, subject to demand being the way it is today yes, we should be able to ramp it up.

Prateek Poddar: Today are we running at full utilizations?

Rajiv Poddar: We are running at full achievable capacity even in the existing phase we were able to do it within one quarter that is why we can confidently say that we will do it in the same in that phase also. If you see in March we did our phase 2 and then unfortunately we went into lockdown and post lockdown within one quarter we were able to achieve our full capacity of 1,15,000 metric tonnes that is for the annual, if you pro-rata every month we are getting those numbers.

Prateek Poddar: Annualized basis and second Sir when you quantify payback period is it pre-tax or post-tax?

Rajiv Poddar: It is pre-tax.

Prateek Poddar: Lastly Sir just on the breakup even if I take some broad numbers for the power plant like Rs.5 Crores per megawatt and maybe you can help us with this and Rs.550 Crores for 85,000 tonnes effective versus setting up phase one and two you spent Rs.425 Crores for 1,15,000 tonnes whatever number I take for this advanced lag it is not adding up unless there is material inflation to the capex cost so maybe if you can help us you in the next quarter or put the exchange at least just giving a detailed breakdown of the capex between the basic as well as the advanced and power plant that would be really appreciated Sir.

Rajiv Poddar: Thank you for that as we have just got the approval we will start our workings and all and these are budgeted and but we will share more details as we get more information on the exact numbers.

Prateek Poddar: But then that is my question right when you say and I am not trying to demean you or something but if I am sure you when you say a payback of five to six years there is a number right of the case in your mind?

Rajiv Poddar: We have it in mind, but we are here fine tuning it that is why it is too early to comment.

Prateek Poddar: Okay, okay so maybe here if you can help us anyway in the next quarter whenever that will be really, we will do?

Rajiv Poddar: 100% we will do that we have done it in the past also we will continue to do that.

Prateek Poddar: Great Sir.

Moderator: Thank you. The next question is from the line of T S Vijay Sarthy from Anand Rathi. Please go ahead.

T S Vijay Sarthy: Thanks for the opportunity Sir. Just wanted to check on the incremental capacity, how much of this will be operable in FY2023 and how much will flow to FY2023?

Rajiv Poddar: In the tyre one?

T S Vijay Sarthy: Yes?

Rajiv Poddar: So, I think we will start as you know the tire will take us six months to ramp up so within the six months you should hit that annualized number of 50,000.

T S Vijay Sarthy: Sir effectively entire 50,000 in flow in FY2024.

Rajiv Poddar: Yes effectively.

T S Vijay Sarthy: Given that our core business is not carbon black we seem to have a high value advanced carbon material for a third party is there a charge that you have set yourself internally that we would not move beyond this revenue in terms of carbon black proportion is there something that in mind or it is not yet, it is still open?

Rajiv Poddar: There is no such cap or something but as I mentioned earlier that we are doing it as a backward integration to our tyre looking at the future requirement and also there is a good demand currently so we are just enjoying that basket we needed, we need power also for our existing new Brownfield so you burn the fuel and generate carbon black so that is math that has been coming in, there is no thought as of today to divert away from our core to go from tire to carbon black or make it a big business or something but there is no such cap also at the same time that we will restrict it to here, yes there is no thought that we want to make like 50% or 40% or anything so it is just being done as a backward integration to self cater and at the same time consume the fuel for power requirement of our new expansion.

T S Vijay Sarthy: Sir finally what is the capex that we have done till now Sir?

Rajiv Poddar: For this year Capex roughly about Rs.600 Crores

T S Vijay Sarthy: Anything that we envisaged in fourth quarter, the current quarter?

Rajiv Poddar: In the coming quarter for the roughly about another Rs.100 Crores – Rs.120 Crores in this quarter.

T S Vijay Sarthy: This is including the maintenance?

Rajiv Poddar: Yes.

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

Puneet: Thanks for the opportunity. Can you tell us about how what percentage of the existing carbon black capacity are using in-house and what is it that you are exporting or selling and what is the realization on it and how what kind of savings are you making from it?

Rajiv Poddar: So on the carbon black plant currently our sales contribution to third party is less than 2% of our overall number, currently of the carbon black per se itself roughly about 25% is sold in the open market.

Puneet: Okay so out of 115 only 25% is sold. What kind of realization do you get on it?

Rajiv Poddar: About this industry average

Puneet: Yes, at rupees per kg number if you have?

Rajiv Poddar: I do not have it on me now, but we can share with you.

Puneet: Okay and in terms of savings what kind of savings are you able to accrue from these existing capacity. On your entire cost what kind of savings instead of procuring from outside by using in-house carbon collect what kind of savings are you making

Rajiv Poddar: So, there are tangible and intangible benefits so first and foremost I would rate the biggest advantage that we get is we get a secured supply, we get standard product which we know, which relates to quality because you have full control over that and which is equal to see the quality improvement so that those are the advantages of getting into the quality carbon manufacturing for BKT itself for the tire business.

Puneet: Okay and for tangible benefit?

Rajiv Poddar: Tangible benefit is of course there is no packaging required because it is within the plant room is transferred via pipes there is no transportation involved so those are the tangible benefits, which we do but it is those are the kind of benefits that we are seeing tangibly.

Puneet: Okay and second question is you talked about the technology of tradition saving and somebody also pointed out almost Rs.90 Crores per annum so is it largely employee savings because your employee cost alone is Rs.300 Crores so it is a pretty significant savings from that perspective?

Rajiv Poddar: That will be difficult to give you that kind of breakup but it will not be only employee it will be you will be able to develop higher quality tires you will be able to make better tires given in the market so those kind of efficiency improvements will come in, your error proofing will come in so it is a mixed batch of everything it is difficult to quantify, it is the whole amount to a certain category of idea.

Puneet: Great and in terms of your dividend payouts any thoughts on the policy you seem to be paying out quite well this year as well what kind of rates are you likely to continue?

Rajiv Poddar: So, I think that the board will take a call looking at the performance every quarter so it is difficult to give you a number that what will be there or what is that but of late from the last two or three years the board has been approving the dividend payout quarterly and based on each year's performance each quarter's performance they take a call but it is difficult for me to answer what will the board do and what is the target that the board is setting.

Puneet: But in terms of since a large part of free cash flow will not be diverted to capex is it likely to hurt the dividend or you think the same run rate can at least continue?

Rajiv Poddar: I think same run rate should be able to continue based on current market scenarios and current earnings.

Puneet: That is all from my side.

Moderator: Thank you. The next question is from the line of Ashwani Agarwal from Baroda AMC. Please go ahead.

Ashwani Agarwal: Sir I have got a couple of questions, so with this capex are we expecting roundabout Rs.550 Crores to Rs.600 Crores of operating profit every year from FY2024 onwards additional limit you say over apart from the normal run rate?

Rajiv Poddar: So, it is very difficult to give those numbers like this we cannot share those numbers on this but we are working on that and we will get back to you.

Ashwani Agarwal: I am just trying to derive from whatever you said that normal payback period at PBT level should be roughly five years, right?

Rajiv Poddar: Yes.

Ashwani Agarwal: So, at the PAT level you should take around about six and a half years or slightly more than that to break even you will make a profit of Rs.300 Crores approximately on this?

Rajiv Poddar: Yes, when you look at it from those bases and the calculations we have done it looks achievable and we should be able to hit that but these numbers are broadly right in terms of when you put the match together but we cannot commit to it today but this is the direction that we are looking at, you are right in that sense.

Ashwani Agarwal: Yes, that is true but here I have taken an assumption that Rs.300 Crores post tax, next five or six years or whatever but that will get possible so but in the initial two to three years, this will be highly our ROE dilutive because currently ROE are 22% and on this for the initial two to three years your ROE will be less than 15% maybe 12%, 13% to start with?

Rajiv Poddar: Whenever you take up any cycle of capex that question will come and then come back so I think you look at historically also or any project that has been undertaken at that time there is some dip in the ROE and then goes up but if you try and see in the capex for us will be spread across the years equally starting slower and then picking up and then going so with that cycle you should have overall the same numbers

Ashwani Agarwal: Okay and on a discounted cash flow basis, this payback period should not move like 9.5 years right? Okay and Sir what is the scenario about the demand and your raw material positioning currently?

Rajiv Poddar: So, for the raw material position Bajaj Ji can you answer on that?

Madhusudan Bajaj: Availability currently we have got two months inventory, one month in factory and one month in transit and currently we are not facing any issue but going forward, yes some raw materials are in short supply like nylon and rubber but otherwise we are very well covered with the raw materials.

Ashwani Agarwal: Why Raw materials are in short supply in the market?

Rajiv Poddar: There is overall, not fast, but overall there is short supply in the market, but we are covered for the moment and we look to manage our situation.

Ashwani Agarwal: What is the effect on the cost as compared to Q2, Q3

Madhusudan Bajaj: Approximately 4% to 5% prices have gone up in the last two quarters

Ashwani Agarwal: Are we able to pass on these prices to our clients?

Rajiv Poddar: Yes, as I told you in the start of this quarter, we were able to pass on 2% to 3% and we look to continue to pass on in the coming quarters.

Ashwani Agarwal: Okay and the how is the demand situation for the next one or two years, how do you foresee it?

Rajiv Poddar: Two years at this it was a long time to say but at this stage we see it good and that is forecasting it to continue to be good and that is why we are looking at these kinds of capex to be done.

Ashwani Agarwal: Okay thanks a lot.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Joseph George for closing comments.

Joseph George: Thank you Margaret. I would like to thank the management of Balkrishna Industries for taking out time for this call. Have a good day.

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