



BIL/SE/2022-2023

18th February, 2023

To,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

National Stock Exchange of India Ltd,
5th Floor, Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai 400 051.

Scrip Code: 502355

Trading Symbol: BALKRISIND

Dear Sir/Madam,

Subject: Transcript of Conference call with Investors/Analysts conducted on 13th February, 2023 to discuss the Q3 FY23 Results.

In continuation of our letter dated 6th February, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of conference call with Investors/Analysts on Q3FY23 Results of the Company held on 13th February, 2023. This information will also be hosted on the Company's website at <https://www.bkt-tires.com/ww/us/investors-desk>.

You are requested to kindly take the above information on record and disseminate.

Thanking you,

Yours faithfully,
For **Balkrishna Industries Limited**

Vipul Shah
Director & Company Secretary
and Compliance Officer
DIN: 05199526

Encl: As Above

Balkrishna Industries Ltd.

CIN No.: L99999MH1961PLC012185

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“Balkrishna Industries Limited
Q3 FY '23 Earnings Conference Call”
February 13, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges — BSE Limited and National Stock Exchange of India Limited and the Company website on 13th February 2023 will prevail



MANAGEMENT: **MR. RAJIV PODDAR – JOINT MANAGING DIRECTOR –
BALKRISHNA INDUSTRIES LIMITED
MR. MADHUSUDAN BAJAJ – SENIOR PRESIDENT,
COMMERCIAL AND CHIEF FINANCIAL OFFICER –
BALKRISHNA INDUSTRIES LIMITED
SGA INVESTOR RELATIONS ADVISORS**

MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA AND KARANI
SECURITIES INDIA PRIVATE LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to Balkrishna Industries Limited Q3 FY '23 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thanks, Seema. Good morning, everyone. On behalf of B&K Securities, welcome to 3Q FY '23 Post Results Conference Call of Balkrishna Industries Limited. I also take this opportunity to welcome the senior management team of Balkrishna Industries Limited. We have with us today, Mr. Rajiv Poddar, Joint Managing Director; and other senior members of management team. I would now invite Mr. Rajiv Poddar for their opening remarks to be followed by question-and-answer session. Over to you, sir.

Rajiv Poddar: Thank you, Mr. Jayaraj. Good morning, everyone, and thank you for joining us today. With me, I have Mr. Bajaj, Senior President, Commercial and CFO; and also SGA, our Investor Relations Advisors. Let me begin with performance updates. As indicated, during our previous interaction, we are experiencing channel inventory clearance in our end market. The distribution channel across the globe market has excess inventory not only in the Off-Highway Tyre segment, but also in other tyre segments as well. So with this, the slow lowering of raw material prices and improvement in delivery time lines owing to better availability of containers has led to a lower reordering cycle via this channel.

The end demand is still holding up. But the channel issues of reordering continue to impact the volumes. Therefore, as expected, our Q3 volumes were 66,480 metric tons. We continue to face the challenges of destocking in Q4. However, the intensity of the situation is receding on a month-to-month basis.

The situation has been relatively better in North America. However, recession fears can continue to impact demand. India continues to be stable, supported by a better economic environment.

Our EBITDA margin had 2 elements that broadly negated each other.

The freight cost corrections that we have been witnessing in the last few months have led to improvement in our margins, which is reflected in our freight costs which stand at approximately 9% of sales in Q3 versus approximately 14% in the previous quarter. We expect further benefit on the account of freight to reflect in Q4 and fully in Q1 of FY '24. Please also note, we have lowered the surcharge to end customers on account of freight, and the same is reflected in our average selling price, which has moved down by 6% on a Q-on-Q basis.



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The aspect, which impacted our margins negatively and almost negated the benefit of freight costs was raw material costs.

Please note that while raw material prices have corrected, we could not fully enjoy the benefits due to the high cost of raw materials in our inventory. Further, lower volumes clocked in Q3 led to lower absorption of fixed cost as against the expectations of a higher volume built in at the start of the financial year.

We expect some improvement in Q4 and a meaningful recovery in margins in FY '24. Lower raw materials and freight costs, better hedge rates, better end market situation give us ample hope of margin recovery in financial year '24.

Let me now update you on the capex. The capex of the Carbon Black project along with the Power Plant has been completed. With the commissioning of 55,000 metric tons per annum, power achievable capacity stands at 170,000 metric tons per annum. The advanced Carbon Black project of 30,000 metric tons per annum is on track, and we expect to commission the same by the end of the current quarter or the early part of next quarter. The capex for Brownfield capacity, for addition of 25,000 MTPA at Waluj has commenced. We expect the same to be completed in the first half of next financial year. Post completion of this Brownfield project, Waluj will have a total capacity of 55,000 metric tons at a single location. At a company level, our achievable capacity will increase back to 360,000 metric tons per annum by end of the first half of financial year '24.

With this, I now move on to operational highlights. Our sales volume for the quarter was 66,480 metric tons, a degrowth of 5% year-on-year. For 9 months, sales volume stood at 228,505 metric tons, a growth of 8% year-on-year. Our stand-alone revenue for the quarter stood at INR 2,215 crores, which includes realized gain on foreign exchange pertaining to sales of INR 73 crores. For 9 months, revenue stood at INR 7,748 crores, which includes realized gain on foreign exchange pertaining to sales of INR 255 crores.

For the 9 months of financial year '23, 49% of the sales came from Europe, 21% from India, 19% from America and the balance of the rest of the world. In terms of channel contribution, 70% was contributed from the replacement segment while OEM contributed to 28% with the balance coming from offtake. In terms of category, agricultural segment contributed to 63%, while OTR, industrial, and construction contributed 34% and the balance came from other segments.

Stand-alone EBITDA for the quarter was INR 423 crores with a margin of 19.1%. While for 9 months, it was recorded at INR 1,534 crores, translating to a margin of 19.8%. Other income for the quarter stood at INR 43 crores, while unrealized loss stood at INR 166 crores. The sharp rise in euro rates in Q3 to the tune of 10% impacted our forex borrowing, leading to M2M loss. Other income for 9 months stood at INR 86 crores, while unrealized loss stood at INR 91 crores.



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Coming to net forex items. For the quarter ended Q3FY23 we had net forex loss of INR 88 crores, which includes realized gain of INR 78 crores and unrealized loss of INR 166 crores. For 9 months of financial year '23, we had a net forex gain of INR 198 crores, which includes realized gain of INR 289 crores and an unrealized loss of INR 91 crores. Profit after tax for the quarter was INR 100 crores versus and for 9MFY23 was INR 823 crores. Our gross debt stood at INR 3,464 crores at the end of 31st December '22, of which about 75% is related to the working capital debt. Our cash and cash equivalents were INR 2,082 crores. All the capex programs barring Carbon Black are over. We have minor amounts and retention monies to be spent. For Q3 financial year '23, the euro hedge was at INR 85.

The forward hedge rate currently stands at INR 86 for the financial year '23 due to the sharp uptick in euro rate. For FY24, we will be able to achieve INR 87. The Board of Directors has declared a third interim dividend of INR 4 per share. This is in addition to an earlier interim dividend of INR 8 per share. With this, I conclude my opening remarks and leave the floor open for question and answers.

- Moderator:** We take the first question from the line of Binay Singh from Morgan Stanley.
- Binay Singh:** The first question is on the volume side and the second on margins. So on the volume side, could you update us on the inventory levels that you have now? You had added that it's around 3 months in the September conference call. Where is inventory now? What is the ideal level of inventory would like to go at? And linked to that, when we look at the volume breakdown by region, we see that the biggest drop sequentially is in the US market, in the North American market. So if you could comment a little bit on that also. That's the first question.
- Rajiv Poddar:** When you asked about the inventory, I'm assuming that is for raw materials, we would ideally like to be around 45 days. We are currently between 60 and 65 days.
- Binay Singh:** Sir, I meant inventory at the dealer level of the tyre stock because earlier, we had talked about that we are destocking inventory. So we were at 3 months in September, we were planning to bring it down to 2 months.
- Rajiv Poddar:** So it has come down to about 2.5 months.
- Binay Singh:** Okay. So that process will continue into the coming quarter?
- Rajiv Poddar:** Yes.
- Binay Singh:** Within the breakdown of volumes, we see that the biggest sequential drop is in the North American market. So could you talk a little bit about that? On a Y-o-Y basis, it has grown well, but sequentially, we see a sharp drop. Is it due to seasonality or something?
- Rajiv Poddar:** Yes. That is the seasonality, but we are, overall, not very concerned about that. America is growing well for us.



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Binay Singh: Okay., secondly, on the margin side, if I look at your other expenses, excluding freight cost, they have also sequentially gone up. So any comments on that? What was the driver there?

Rajiv Poddar: So basically, some minor promotional activities, which have been done, which have come into account in the quarter.

Binay Singh: Okay. So to an extent, this should sort of normalize back in the coming quarters?

Rajiv Poddar: Yes.

Moderator: We take the next question from the line of Mr. Ashutosh Tiwari from Equirus Securities.

Ashutosh Tiwari: Firstly, gross debt numbers, what is the interest costs we now have on the working capital and long-term debt because I think the LIBOR is everything has gone up over the last 1 year?

Rajiv Poddar: Between 3.5% and 4%.

Ashutosh Tiwari: Okay and this is true for both your working capital as well as long-term debt?

Rajiv Poddar: Yes. I've given you the average for both. Long-term is lower, but if you include the working capital, that gives you the average.

Ashutosh Tiwari: Okay in terms of demand, I mean, you said that retail is still holding up and inventory correction has now moderated. So can we go to say 75,000 tons, 80,000 tons kind of run rate from Q4 or Q1, is that visibility coming through because we are already in february right now.

Rajiv Poddar: It's too early to comment on that.

Ashutosh Tiwari: lastly, on the demand side, is it like across the globe, the volumes are contracted across construction and mining or agri or maybe mining is still holding up? And what's the current sense of that?

Rajiv Poddar: Yes. So agri is more effective. Industrial construction is -- yes, they're holding up.

Moderator: The next question is from the line of Mr. Arvind Sharma from Citi.

Arvind Sharma: Two from my side. First on the realization. This decline, is it entirely attributable to the lower surcharge? Or is there a mix impact as well? I'm talking about ASPs.

Rajiv Poddar: So it is only due to the lower surcharge.

Arvind Sharma: So apart from that, there is no change quarter-on-quarter?

Rajiv Poddar: Yes.



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- Arvind Sharma:** Sir, secondly and more of an accounting question. In the reported format, not the presentation, where are your unrealized FX losses that INR 177 crores, where is it located in the reported format?
- Rajiv Poddar:** It is included in the other expenditure in the reported format.
- Arvind Sharma:** Okay. So that could be one of the reasons why it would have gone up, right, that INR 175 crores is the incremental this quarter and the FX gains, I believe, were reported as a part of other income?
- Rajiv Poddar:** Yes.
- Moderator:** We'll take the next question from the line of Sonal Gupta from HSBC Mutual Fund.
- Sonal Gupta:** Just continuing with this ASP decline versus the freight surcharge. So essentially, this should not be negative for your numbers, right? Like I mean, what's going out of the top line is going out of cost as well, I mean, in absolute EBITDA per ton basis?
- Rajiv Poddar:** Yes, the freight rates have contracted, and that is why the ASPs have come down.
- Sonal Gupta:** Right. I mean ...
- Rajiv Poddar:** When we say that, even the earlier quarters, they were never passed on to that burden as yet -- they were not fully passed on. So that is why the impact is yet coming. It is getting negated.
- Sonal Gupta:** Right. No. So if I see like on a per ton basis, your freight cost would be down like say, like \$250 per ton and your ASP is down more than that. So just trying to understand what is the factor here? And like you mentioned that some amount of freight cost decline was not passed on to customers. So ideally, your ASP decline should be lower than the decline in freight cost, right?
- Rajiv Poddar:** So we were not able to pass through in the earlier quarters, we were not able to pass through the full amount. Thereby, it was impacting on our ASP. But now with that being withdrawn, even this has come down.
- Sonal Gupta:** But I'm just trying to understand, sir, are there any other factors that is driving the ASP down other than the freight cost?
- Rajiv Poddar:** No.
- Sonal Gupta:** No other factor. And this decline should not be negative for margins, right?
- Rajiv Poddar:** So there is no change in the product mix or there is no change in the overall working of the company. So no other impact on ASP apart from the freight.
- Sonal Gupta:** Just coming back to the question on other expenses other than freight. I mean, we've seen like a INR 50 crores quarter-on-quarter increase. So you're saying mainly marketing spend? Or are

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there other factors that have driven like because the level of activity has gone down, right? Like your volumes are down 16% Q-o-Q but your other expenses ex freight rate is up 10%.

Rajiv Poddar: So mainly, it is the benefit of a marketing expense, which has gone up and some foreign exchange loss.

Management: So typically, when you have a net forex loss, it sits in the other expenses, which is why on a quarter-on-quarter basis, the other expenses look higher. If you negate the loss situation, the quarters may look slightly more comparable. In quarters where there is a net forex gain, it sits in other income.

Sonal Gupta: So could you quantify that? How much is the loss?

Management: The loss for Q3 this quarter on a net basis is about INR 88 crores. That is what is sitting additionally in the other expenses, which, if you negate, looks more comparable from a Q-o-Q basis.

Sonal Gupta: Got it. Sir, this is on current liabilities and current assets -- not related to that, right?

Management: That's right.

Moderator: The next question is from the line of Mr. Siddhartha Bera from Nomura Capital.

Siddhartha Bera: Sir, again, on this realization drop, will it be fair to say that the competition would have taken similar cuts as well? And our discount versus the Tier 1 players of about 10% to 15%, which we have maintained, that remains largely relative?

Rajiv Poddar: So the difference between us and the Tier 1 yet continues to be the same. Their costs have also gone up being in the western world. The power cost particularly and the difference is currently being maintained.

Siddhartha Bera: Okay. So I think they also must have taken similar cuts in the surcharge which they are charging to customers.

Bajaj: They may not pass it on in form of a surcharge, but in other ways, I am not sure. But the difference in the end product remains the same.

Siddhartha Bera: Okay. on the freight costs they have come down, but I mean, we expect more reduction in the coming quarters, so that should again lead to a conventional drop in ASPs. As in it passes on those surcharges as well?

Rajiv Poddar: Yes..

Siddhartha Bera: Okay. And sir, on the RM side, we had a higher cost inventory in the Q3. But looking at current levels, how much commodity cost, and benefit cost can we expect in the coming quarters from Q3 levels?



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- Rajiv Poddar:** We can't give you the exact quantification of this, but it will come down.
- Siddhartha Bera:** I mean in high single digits can that be the right assumption in terms of decline?
- Rajiv Poddar:** No, we can't quantify that.
- Siddhartha Bera:** Okay. the last question is on the capex side, if you can highlight the 9 months, how much has been done? And any thoughts you have for the next year as well?
- Rajiv Poddar:** Around INR 1,300 crores has been done in the 9 months.
- Siddhartha Bera:** Okay. So that is largely for the whole year? Or do you expect something more in Q4?
- Rajiv Poddar:** There will be some minor amounts that are left over because all our projects are over apart from the Carbon Black and the Brownfield project at Aurangabad at Waluj.
- Siddhartha Bera:** Okay. Understood, sir. Okay. And any number for next year, if you can share?
- Rajiv Poddar:** Around INR 300 crores to INR 400 crores.
- Moderator:** We'll take the next question from the line of Priyaranjan from HDFC AMC.
- Priyaranjan:** So my question is related to the volume. whatever we used to do around 78,000, 80,000 in a couple of quarters. And then we have again come back to roughly 66,000, 70,000. So is it ideal to assume like, say, 70,000, 75,000 number is the right number because in the previous quarter, there has been overstocking in this channel and the demand is actually around 70,000, 75,000. Is this the right way to look at it?
- Rajiv Poddar:** Sir, it is too early to give a view on the volumes for next year, but trends are slowly improving.
- Priyaranjan:** Okay. And what is the net debt number right now, I mean at the third quarter?
- Rajiv Poddar:** Around INR 1,350 crores.
- Priyaranjan:** INR 1,350 crores, okay. And just coming back to the cost element. So on the raw material side, so gradually, I mean, are you seeing any kind of inventory still left of the previous high-cost inventory? Or do you think now the normalized level of inventory and the pricing of the inventory will be there in the system?
- Bajaj:** Inventories are still higher, but reduction, you will see next quarter also. In the coming quarter, there will be a reduction. And from April onwards, we can expect the normal price.
- Priyaranjan:** Understood. And just on the pricing front, so because there has been some inventory destocking, etc.. So do you see the industry level, there has been some price correction as well apart from whatever you have done in terms of surcharge, etc.. Is there some pressure in terms of pricing as well in the industry?



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- Rajiv Poddar:** No, not at the moment.
- Priyaranjan:** Not at the moment. But it can come back
- Rajiv Poddar:** It's difficult to say today, but we are not seeing any of this because the surcharges, which have some have already had a positive impact even though pricing is slow, so it's difficult to say.
- Priyaranjan:** Okay,. And how much extra surcharge is still left? So I guess it was around 5% to 6% earlier than the cost of freight cost used to be. It has to go up to a 14%. So 6% you have already corrected. So is it fair to assume that 3%, 4% is -- can additionally be cut -- went about formally the entire trade cost normalizes?
- Rajiv Poddar:** No. So basically, our surcharge from 1st January has come to 0 for most of the regions. So whatever you -- as you rightly said, whatever freight benefit you will see, it will have an impact on the positive side of the margin.
- Priyaranjan:** Understood. But surcharge you will not -- I mean it's almost 0 now?
- Management:** From 1st January
- Moderator:** We take the next question from the line of Mumuksh Mandlesha from Emkay Global.
- Mumuksh Mandlesha:** Sir, the Off-Highway Tyre segment continue to remain on positive trajectory. Can you guide what kind of growth expected going ahead, sir?
- Rajiv Poddar:** y Low single digit.
- Mumuksh Mandlesha:** Yes. So the rest of the world regions have witnessed a decline on a year-on-year basis in terms of volume-wise spending having better availability of capacity, So what drove the correction in those markets, sir?
- Rajiv Poddar:** It's just an economic cycle seasonal factor.
- Mumuksh Mandlesha:** Right, sir. can you guide a path to improve the margin to the target range of 28% to 30% over the coming quarters. So what will lead to those target ranges, sir?
- Bajaj:** Meaningful recovery EBITDA is due to raw material and freight cost, we'll gain at least 300 basis points in FY24.
- Mumuksh Mandlesha:** So 300 bps improvement due to RM and freight in FY '24, you expect?
- Bajaj:** Yes, At least it is the minimum, at least.
- Moderator:** We'll take the next question from the line of Mr. Jinesh Gandhi from Motilal Oswal.



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- Jinesh Gandhi:** Couple of clarifications. One is the forward hedge rate, you indicated Rs 86 against euro would be for fourth quarter FY '23.
- Bajaj:** So that is for the full year for the January, February, March, we have 50% hedged at the rate of 89.
- Jinesh Gandhi:** Okay. And for FY '24, we indicated 87, so is that for our entire exposure or ...
- Bajaj:** Average we have taken, but currently, we have covered up to 50%, which is also at Rs 89.
- Jinesh Gandhi:** Second clarification was with respect to the RM cost benefit. So did you indicate that we expect the benefit of lower RM cost to reflect from April '23 onwards by then our high cost inventory will be totally absorbed?
- Bajaj:** You will see some correction in the January to March also, but full recovery from the April onwards.
- Jinesh Gandhi:** Third question was pertaining to the freight cost side. So are we also passing on the freight cost benefit for contracts which are on CIF basis or only for contracts where -- which are on FOB basis?
- Bajaj:** FOB basis, question does not arise. But on CIF basis, yes, whatever surcharge, we have added that we have withdrawn from 1st of January.
- Jinesh Gandhi:** With respect to the US market, we have seen Y-o-Y decline of 9% in volumes. So is that a reflection of inventory correction? Or this is the end market, which is the
- Bajaj:** General market conditions.
- Jinesh Gandhi:** Okay. Not the inventory correction related impact?
- Bajaj:** No.
- Moderator:** The next question is from the line of Nishit Jalan from Axis Capital.
- Nishit Jalan:** I have 2 questions from my side, mostly on the volume side. You have talked about that dealer inventory levels have come down to 2.5 months. I'm assuming you are giving an average number for Europe and US Typically, what is the normalized inventory level, sir, that we should be looking at given our regional mix. And second point you talked about was that end market demand is holding up well.
- What we understand is that in Europe, especially in the agri segment, there is a double-digit volume decline. Is that not the case? Or what exactly do you mean when you say demand is holding up well, there's a decline, there's a growth, it's flattish? How should we look at the demand side, especially in that agri segment that I'm talking about?



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- Bajaj:** So what we understand from our dealers is, they are able to sell what they were selling earlier. So that is why we are telling end-to-end market demand is intact. However, due to the raw material price decrease they were expecting, and they were not having the space to keep the further tyres which they were keeping in higher inventory during the COVID times. So they are liquidating that inventory. Once that correction is over, recovery of full cycle should start..
- Nishit Jalan:** Normalized inventory levels, how should we look at from 2.5 months, how much more room is there to -- for the inventory level?
- Bajaj:** 45 to 60 days normally, minimum there will be.
- Nishit Jalan:** Okay. when RM prices come down so sharply that we have seen, there is some price correction also that happens in the market. And probably that is another reason why dealers are not looking to lower the inventory levels. Are you seeing any signs or any price cuts happening on gradual pass-on of happening of lower RM costs by any players or by yourself and in Europe other than US market?
- Bajaj:** So far, we have not come across. Only the shipping surcharge which we were charging that we have passed from the 1st of January.
- Nishit Jalan:** And none of your peers have taken any price cut? Or do you see any price cut that's happening because the RM costs have come down very sharply.
- Management:** we have not come across so far.
- Rajiv Poddar:** We have not heard from our dealer.
- Nishit Jalan:** Okay. on accounting thing. This unrealized losses that you have. These will be largely for the working capital because your debt levels are fairly low, right? So the currency fluctuation happens in your receivables and payables. And that is the main reason why you are seeing these kind of unrealized losses coming in? Or are these also pertaining to the future hedges of revenues that you have done and you are doing value on getting some mark-to-market losses on that.
- Management:** Nishit, this is largely due to the borrowings that are there in the system.
- Nishit Jalan:** Only borrowing. It's not the working capital, is it?
- Management:** No. Working capital debt and the long-term debt, that there on the books
- Moderator:** The next question is from the line of Pramod Amthe from Incred Capital.
- Pramod Amthe:** This is with regard to the ASP where you were talking about freight costs. Can you help us understand in a bigger market like Europe, what is the extent of imports from Asia? And what is the extent of locally produced overall as the industry?
- Management:** We finish goods or for raw material?

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Pramod Amthe: No, For the finished goods, for whatever Europe agri tyre consumption happens, what is the extent of imports from Asia only the Asia imports might be the ones which might have been reducing the freight cost, right, not the locally manufactured ones?

Management: Difficult for us to estimate from where they are importing.

Rajiv Poddar: We don't have those numbers.

Pramod Amthe: So are they 15%, 20% or the 50% of the industry?

Management: No idea..

Pramod Amthe: The reason why I was asking is if this is the case and the other guys are holding and you are cutting it. So you might be competitively priced more now versus the -- might be 6 months back when the freight price was going up?

Rajiv Poddar: Difficult to put a number. It's very difficult to answer.

Pramod Amthe: The overall industry itself again Europe, looking at your volume decline versus the industry decline, there seems to be almost on par, like 15%, 16% Q-o-Q decline. So then why do you say that you have cut the inventory versus the industry is also falling in a similar manner?. Second, since now this is the issue for last 1 or 2 quarters, would you be able to disclose on a regular basis, what are your retail volumes for these wholesale volumes, so we can get some more color in terms of what's the underlying demand?

Rajiv Poddar: No. We don't have that data..

Management: Difficult to get data off the retail volume, it would be very difficult to provide that number on a quarter-on-quarter basis.

Pramod Amthe: Since you said the dealers inventory has been reduced by 15 days, so you may be having retail versus wholesale, right?

Bajaj: What we understand from our dealers is that we have only informed you on the call.

Pramod Amthe: Okay. Since the margins have been under pressure for the last couple of quarters, and now you're almost running nearing your completion on capex. Would you be focusing now on cost reduction so that you can come back to the your normalcy of corporate margins much sooner? At least that is the case where you want to focus on the cost side?

Bajaj: So we are always conscious about the cost part. But once the volume increases, it will come down.

Pramod Amthe: So you will wait for operating leverage to play out?

Bajaj: Yes.



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- Moderator:** The next question is from the line of Mr. Abhishek from Dolat Capital.
- Abhishek:** Sir, you have recently done full automation and modernization of Bhuj plant and also invited dealers and clients for plant visit. So how is the customer feedback and how much benefit you will get in terms of operational efficiencies? And what is your plan to reduce power costs?
- Rajiv Poddar:** So customer feedback is, I mean, good because they're getting a more consistent product. So that is what we are getting feedback from them. Regarding power reduction or any other efficiency improvement, it is a continuous journey that we do at BKT. There is no destination. Every time we reach a new bench milestone, that becomes a benchmark, and we continue to improve from there.
- Abhishek:** Okay. Sir, in the past, you have done a lot of land acquisitions near Bhuj. So what is your long-term plan for capacity additions in both tyres and the Carbon Black, sir?
- Rajiv Poddar:** We are evaluating. We have not made up any firm decision yet. As and when we do, we will let everybody know after the Board approves.
- Abhishek:** Okay, sir. So right now, the current capacity is 365,000 tons. Can we assume that in the next 2 years, you can use to the 500,000 tons kind of the numbers?
- Rajiv Poddar:** We can't give you a number on that or comment on that because as of now, we have not drawn up anything neither have we gone to the board. So it's just fair to put a number and we can get there or we can't get there. At the moment, what we are saying is by end of financial year of first half of next year, our number will go to 360,000 tons, our capacity.
- Abhishek:** And my last question is related with your expansion on networks. So what have you done to expand in your global network in the last couple of quarters? And how do you see opportunities in the South American market?
- Rajiv Poddar:** So we have built our local network in Shenzhen and of course that is an opportunity for us to grow. That is our view.
- Abhishek:** So what is the contribution of the South American market in overall volume right now?
- Rajiv Poddar:** We don't break it up into South and North America. We can give you for Americas. The total Americas is currently contributed to about 90% from North Americas for 9 months
- Moderator:** We'll take your next question from the line of Mr. Ankit Kanodia from Smart Sync Services.
- Ankit Kanodia:** So sir, after the results, as in Q1 FY '23 result, we made a commentary regarding the cautionary or the recessionary situation in Europe. But when we look at the volumes in Q2 and Q3, it looks like the Europe volumes have been pretty resilient. Can you throw some light on this as to what is happening in the industry and how are we positioned there?



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- Rajiv Poddar:** So as we mentioned that, yes, Europe is under recession. So we are also seeing that and there is destocking at the dealer network. So we are continuing to see that. The retail is holding up the demand, and that is why we are confident of getting some numbers back in the coming quarters. The trend seems to be positive.
- Ankit Kanodia:** And how are we doing in terms of market share there? I'm not looking at any numbers, but how is our market share increase during the period of -- remain largely the same ...
- Rajiv Poddar:** Stable, our market share is stable. we have not lost cross market share.
- Ankit Kanodia:** Okay. My next question is on the capex thing. So largely, most of our capex has been done in as per your presentation, the Carbon Black project and also the Waluj Brownfield capex, I think both will be done by maximum by Q1 FY '24.
- Rajiv Poddar:** Yes.
- Ankit Kanodia:** Is it fair to assume that next year FY '24, we'll get double benefit, one from the operating leverage if the volumes go up? And also from the point of view of -- incrementally, we'll see our interest and depreciation not arise and currently going down. And in depreciation can't go down, but incrementally, it will not rise. Is it fair to assume?
- Rajiv Poddar:** Yes.
- Moderator:** The next question is from the line of Priyaranjan from HDFC.
- Priyaranjan:** Just one thing how do we plan to ramp up the carbon black? I think the specialty Carbon Black will be mostly sold outside? And what kind of contribution we are seeing the normal Carbon Black sales from the overall top line?
- Rajiv Poddar:** Carbon Black be about 5% of the top line and specialty will be sold outside only 100%?
- Priyaranjan:** And an additional 55,000 tons, which is the normal Carbon Black that will all mostly consume in-house or that will also have some
- Rajiv Poddar:** So that will have some sales outside. But overall, our sales turnover, about 5% will be Carbon Black will be sold outside.
- Priyaranjan:** Specialty, I mean, do we have identified the market? And how should we look at the ramp-up of that specialty?
- Rajiv Poddar:** Yes, we have identified markets. We are going to do testing, so we can ramp up in about a year's time.
- Moderator:** The next question is from the line of Mr. Aniket Mhatre from HDFC Securities.



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- Aniket Mhatre:** Just a quick clarification, sir. When you said low single-digit growth, you meant this for near-term or for FY '24?
- Rajiv Poddar:** At this moment, we are only commenting on the near-term, so we are commenting on the near-term that will be a low single digit.
- Aniket Mhatre:** So that's what one should expect for Q4?
- Rajiv Poddar:** Yes.
- Aniket Mhatre:** When you said the benefit from raw material and freight of about 300 basis points that would be after the entire benefit would flow in from Q1 FY '24, right?
- Rajiv Poddar:** Yes.
- Aniket Mhatre:** So by when should one expect our margins to bounce back to 28% to 30%, could you provide any guidance?
- Rajiv Poddar:** So on the quarter, when you asked about the volumes, I'm just reiterating to clarify, you -- quarter-on-quarter, it will be better, a little better, so sequentially.
- Aniket Mhatre:** Sequentially, it would be a bit better. Okay. And on margins, when can we go back to our guidance of 28% to 30%?
- Rajiv Poddar:** We are working towards that. We've always mentioned that in the long-term, we would like to be at that. So basically, there is no principal change in the way we operate over here. These are minor cyclic effects, which are coming in, but we would like to go back to there. But in the next coming quarters, we will have a meaningful recovery in EBITDA due to raw material and freight costs going down. We expect it to be around 300 basis points from the current level at least.
- Aniket Mhatre:** Sure. So from current levels of 19%, you expect 300 basis points improvement at least by Q1? And any forex benefit would be over and above that.
- Rajiv Poddar:** Yes.
- Moderator:** We'll take the next question from the line of Mr. Lokesh from Vallum Capital.
- Lokesh:** A couple of questions from my end. One is on the forex on the unrealized loss of INR 166 crores attributed to borrowings. If you can share the average duration for these borrowings? A ballpark number would be fine.
- Rajiv Poddar:** So the average duration is 3 years for the long-term and 6 months for the short-term.
- Lokesh:** Okay. So is it right to assume if, let's say, in the next 6 months, the euro is at Rs 88 and it does not come down. This provision would not be written back. Is it fair to assume that?



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- Rajiv Poddar:** Yes.
- Lokesh:** Great. The second is on the ASP front. So we're seeing raw material prices coming down. Going forward, how would you like to play this? Would you pass it on to your dealers? Or would you want to play this with volume which is coming up with your capacity?
- Rajiv Poddar:** At the moment, we'll wait and watch about what is happening in the industry, how everybody is moving, what is happening. So it's too early to comment. We have not made up our minds, but we are waiting and watching.
- Lokesh:** As for what the market demand is and how the situation is.
- Moderator:** The next question is from the line of Mr. Mayur from Asian Market Securities.
- Mayur Milak:** This is Mayur. Just wanted to understand, so now that we've been hearing that China is kind of reopened and would normalize production. Have you seen any trend of the Chinese tyres coming back into the European replacement market yet? Or all of that yet need to be factored in?
- Rajiv Poddar:** No, it's not -- we've not seen any trend.
- Mayur Milak:** Okay. and is it fair to assume that you would have significantly gained because tyres from Russia and China, both were possibly not there. And since the European counterparts would have seen some significant increase in their operating cost as well due to higher energy costs. We would have gained -- is it fair to assume that we will be able to retain most of this gain or you could see some loss of share once all of these factors also kind of normalize?
- Rajiv Poddar:** So we can retain the gain.
- Moderator:** We take the next question from the line of Prolin Nandu from Goldfish Capital.
- Prolin Nandu:** A couple of questions from my side. First would be over the medium-term, right? I mean what kind of market share gains should we assume? Because in the past, you have mentioned that you are somewhere at 5% to 6% market in the relevant markets that you are presenting. And I mean 2, 3 years back, I think this number was 3% to 4%. So could you help us understand as we enter new markets as the local dynamics in some of the markets where we are present changes, is it fair to assume that the market share gains will accelerate year-on-year over the medium-term?
- Rajiv Poddar:** So currently, as we mentioned, 5% to 6%, our aspiration is to go to 10%. We are trying to accelerate this growth to reach our goal. But how much will it accelerate in the mid-term is difficult to say. We will be prepared for it, and we are ready to reach those numbers.
- Prolin Nandu:** But is there anything happening in the market, which gives you confidence that this 10% number would be achievable sooner rather than what we had previously assumed. Is this anything happening in the market that gives you that confidence or not yet?



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Rajiv Poddar: So I think we are working from whatever we can do, we are working. We are creating the distribution. We are creating the product. And of course, over the last 3 to 4 years, we are putting in a lot of money in marketing. So brand recognition will go up. So those things will always have an impact.

Prolin Nandu: Sure,. And sir, my second question is about your treasury book, right? I mean if I'm not on cash and cash equivalent at the end of this quarter, is also somewhere close to INR 2,000-odd crores, right, in some sense and we carry on that as well. And there have been questions in the past and you mentioned that you want to play that real advantage that we have. And if I look at your annual report for FY '22, I see lots of different types of investment in direct equities in some of the DII's, in some of the venture capital funds as well.

So could you help us understand what kind of an objective the Board or the senior management provide to the treasury? And what kind of constraints does the treasury team work with? And what are the expertise of the treasury team to make some of these investments into VC funds and some of the DII's as well, if you can help us understand that?

Rajiv Poddar: So as we had earlier mentioned that, that was run for short-term parking. So we have already done that. We have already guided that we will be slowly moving that money towards repayment and also towards future capital expansion.

Prolin Nandu: Sure. But are there any constraints? Are there any yield targets that you give your treasury team? Or are there any no-go areas with which our treasury teamwork while I understand that before short-term and now is that in the capex mode. Can you give some constraints with which they work, it would be great for us.

Rajiv Poddar: The no-go zones are taken out to anything that is firstly risky. Short-term paper, safe papers, government papers mainly which gives us good protection on the financial as well as gives us a good yield. So that is the objective.

Moderator: We take the next question from the line of Joseph George from IIFL.

Joseph George: I have 2 or 3 questions. One is, you mentioned that starting Jan 1, the freight surcharge has gone to 0. So how much further speed decline should we think of when we think of 4Q compared to 3Q?

Rajiv Poddar: Very much, very much.

Joseph George: Okay. the second question that I had was in relation to how the pricing of BKT tyres is in, say, Europe compared to the peers? So in the past, you have mentioned that you'd like to keep the price discount versus the larger peers at about 12% to 15%. Now with the level of freight surcharge, had that discount narrowed? Or was it still at 12% to 15%. Now with the removal of the surcharge, it will increase further. How should we think about the pricing there versus the peers compared to the 12% to 15% discount range that you have given us earlier?



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- Rajiv Poddar:** We have always indicated that we would be 12% to 15%. We try to be as close, but yes, of course, during the last couple of quarters, it had gone down to maybe between 11% to 13%, which is now we will take it back to 12% to 15%. But again, I reiterate that our principal policies for operating the business are not changing. We would like to maintain all the same principles that we have been running the business with. So that will continue.
- Joseph George:** Understood. And sir, the last question that I had was in relation to end demand. So I think this question has been asked by previous callers in this call. But -- so what I'm trying to figure out is, when you mentioned that currently, volumes are impacted by destocking, it automatically implies that in the preceding quarters, there was overstocking. So what I'm trying to figure out is when I look at the average volume, say, in the March quarter and the June quarter, September quarter, which was about 80,000 tons per quarter, how much of it was inflated by overstocking by dealers? And in those quarters, what is the volume implied by the genuine underlying end retails?
- Rajiv Poddar:** So there was about 5% to 10% overstocking at their level as well.
- Joseph George:** So we're saying that those 80,000 numbers, I mean when I look at the quarterly numbers, March quarter was 77,000, June was 83,000, September, 79,000. So I think out of this, about 5,000 to 10,000 was over inflation because of overstocking by dealers. Is that the right...
- Rajiv Poddar:** Yes.
- Moderator:** The next question is from the line of Saif Gujar from ICICI Prudential AMC.
- Saif Gujar:** Sir, just regarding the Indian operations. So this quarter, we had around 15,972 tons out of the 66,480 tons from India. So is there any focus on increasing the market share from Indian operations? Or it is just like a hedge from European operations?
- Rajiv Poddar:** No, no, we are working actively to increase the market in India. We have always mentioned that there is an area of opportunity for us to grow. And if you look at the last 2 or 3 years, we have bigger pie also, increased our market share in India. So that will continue to be there. It's not a sort of hedge against Europe. It's a targeted approach that we have made to grow in it.
- Saif Gujar:** So how is the strategy here? And there would not be any significant low-cost advantage as we enjoy in overseas operations, right? So ...
- Rajiv Poddar:** We are competitive in the marketplace. At the end of the day, we are selling ourselves and we are -- our quality is being accepted. Our brand is now being recognized, and all those things are placing us as a premium product, and we are competing with them and selling.
- Saif Gujar:** And it would be more towards the agri side or the Off-Highway side, particularly in India?
- Rajiv Poddar:** Both. Agri is also Off-Highway side, but agri and mining are both industrial, all segments of ours, we are pushing in India.

Commented [RJ3]: Please see I believe it should be market instead of margin

Commented [RJ4]: I recollect Rajiv Ji mentioned that it is not sort of hedge, so I have added "no". just please recheck.



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Moderator: Thank you very much. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Rajiv Poddar: Thank you, everyone, for taking your time to join us. See you next time, stay safe.

Bajaj: Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.