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BIL/SE/2023-2024

30th October, 2023

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

Scrip Code: 502355 (Equity)
Scrip Code : 973556 (Debt)

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

Trading Symbol: BALKRISIND

Dear Sir/Madam,

Subject: Transcript of Conference call with Investors/Analysts conducted on 23rd October, 2023 to discuss the Q2 & H1 FY24 Results.

In continuation of our letter dated 16th October, 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 Q2 & H1 FY24 Results of the Company held on 23rd October, 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**

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Digitally signed by VIPUL SHAH
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Director & Company Secretary
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"Balkrishna Industries Limited

Q2 and H1 FY '24 Earnings Conference Call"

October 23, 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 23rd October 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
MR. RAVINARAYAN JOSHI – DEPUTY CHIEF FINANCIAL OFFICER – BALKRISHNA INDUSTRIES LIMITED
MR. SUSHIL MISHRA – HEAD, ACCOUNTS – BALKRISHNA INDUSTRIES LIMITED
SGA, INVESTOR RELATIONS ADVISORS – BALKRISHNA INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Balkrishna Industries Limited Q2 and H1 FY '24 Earnings Conference Call.

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 mode. There will be an opportunity for you to ask questions after the presentation concludes. Should need assistance during this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Poddar, Joint Managing Director from Balkrishna Industries Limited. Thank you and over to you, sir.

Rajiv Poddar Thank you, Neerav. Good morning, everyone, and thank you for joining us today. Along with me, I have Mr. Bajaj, Senior President, Commercial, and CFO; Mr. Ravi Joshi, Deputy CFO; Mr. Sushil Mishra, Head of accounts and SGA, our Investor Relation Advisor.

Let me begin with performance updates. In Q2, we faced challenges on account of heat waves and recessionary fears in the export market. While the inventory-related challenges in the international markets have normalized, the confidence levels in distribution channels is moderate, leading to gradual and slow improvement. India markets continue to perform relatively better.

The volumes in Q2 were partly contributed by the inventory created in June '23, but could not be shipped out due to the Biparjoy disruptions. Q2 also saw normalization of the raw material cycle, which is evident in the improvement in our margins on a Q-on-Q basis.

As guided in the previous call, we had estimated a capex spend of INR600 crores for financial year '24. Out of this, routine maintenance capex was estimated to be at INR250 crores to INR300 crores. Given the aspiration of growth and better control over the quality, the company has decided to set up a new mould manufacturing plant at Bhuj. Rather than expanding the plant at Dombivali, we have decided to put a new capacity at Bhuj.

This will be a stand-alone new project entailing a capex of INR300 crores. This will get commercialized by the end of Q1 FY '25. Accordingly, the capex spend should be approximately INR900 crores for the financial year '24.

We expect a stable trajectory to continue on volumes and a better H2 of financial year '24. However, given the first half of this year's related challenges and volume performances, we expect the financial year '24 volumes to degrow marginally.

With this, I now move on to operational highlights. For the quarter, our volume stood at 70,585 metric tons. Our stand-alone revenue for the quarter stood at INR2,247 crores. This includes realized gain on forex, pertaining to sale, of INR21 crores.

For the first half of this financial year, 45% of sales came from Europe. 29% came from India and 17% came from Americas. The balance came from the rest of the world. In terms of channel contribution, 71% was contributed from replacement. OEM contributed 27%, and the balance came from offtake. In terms of category, agriculture contributed 58%. OTR industrial construction contributed 39%, and the balance came from other segments.

The stand-alone EBITDA for the quarter was INR548 crores, with a margin of 24.4%. Other income for the quarter stood at INR52 crores.

Coming to the net forex items. For the quarter, we had a net forex gain of INR55 crores, which includes realized gain of INR30 crores and an unrealized gain of INR25 crores. Profit after tax for the quarter was recorded at INR335 crores. Our gross debt stood at INR2,833 crores at the end of 30th September '23, of which about 75% relates to working capital debt. Our cash and cash equivalents were at INR2,283 crores.

The Board of Directors have declared a second interim dividend of INR4 per share in addition to the first interim dividend of INR4 per share paid in the last quarter.

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

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

Mumuksh: Sir, in the first half, working capital has improved by INR340 crores. What would have led the improvement, sir?

Rajiv Poddar: Normalization of inventories.

Mumuksh: Got it. So basically, the inventory holding, we have normalized it to normal levels. And there will be no further correction from -- going ahead from here.

Rajiv Poddar: No, this is the level we expect to maintain.

Mumuksh: Okay. And sir, the realization has improved by 2% sequentially. Would it be a mix impact? And going ahead, how do you see the realization trends? And also, how do you see the increase of fuel prices impacting the RM basking going ahead, sir?

Rajiv Poddar: So realization was basically on account of better hedge rate and some product mix improvement, so that is there, but we expect the realization to be stable at around these levels. On the RM, the fuel cost, I mean, the oil prices are going up, so we are waiting and watching how it will move, but at the moment, we expect it to be stable or a minor increase in the coming quarters.

Mumuksh: Got it, sir. What would be the hedged euro rate for the Q2, sir?

Mr, Bajaj: 88-89.

Moderator: Next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera Sir, first question is on the demand side. So you indicated that the year might be a marginal decline, implying that, in the second half, we might see some growth, so now given the capacity of 360,000 we haveSo given that now we are likely to enter into a growth trajectory and with a capacity of 360,000 tons, do you think you need to sort of start looking at a new brownfield at some point? Or do you think that this is sufficient for the next couple of years.

Rajiv Poddar: So we've mentioned earlier as well, we'll be doing, over a period of time, smaller brownfield expansion at Bhuj. And that will be taken up in due course, so, we will make the announcements when we have something more concrete, but it will be through brownfield projects and small batches at Bhuj.

Siddhartha Bera Sir, what is generally the lead time before which you need to sort of start the brownfield, depending on your visibility on the volumes?

Rajiv Poddar: Because they are brownfield, we expect it to be between 15 to 18 months.

Siddhartha Bera Okay. And second question is on the India business side. We have seen nearly 2 years of very strong growth in the market, so can you share some thoughts about the market share? How are the volumes, the -- how is the growth here coming very strong? And visibility you have going ahead?

Rajiv Poddar: Our market share in India will be similar to our global market share, which is about 4% to 5%, so that is what is there. There is a huge opportunity in India with the government spending on construction, infra development, and agriculture. We are amongst the largest economies for agriculture, so there is a lot of scope over here. And that's where we are focusing. And you can see the numbers are contributing towards the growth of that. And every year, we are getting good growth from India.

Siddhartha Bera Sir, any color about how much you can inch it up to -- say, in the next couple of years given the addressable market you have because you are more towards the higher tyre segment? So, any thoughts there? And will the Indian business profitability be similar compared to global businesses, or will it be different?

Rajiv Poddar: So on the profitability, it will be more or less similar to the global market. On the visibility front, our vision is to have 10% market share globally. Even for India, we hold and aspire to have a 10% market share in the first phase. That's what we are working towards, and that's our immediate target.

Moderator: Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Sir, continuing on the India business. So the strong growth wleading that we have seen does not lead to improved market share? And particularly considering that, unlike the global market where competition is very different and, far more fragmented than in India, the 4% to 5% market share in India looks quite low for us. What am I missing over here?

Rajiv Poddar: So that's our estimate, but we should be quite accurate on that. We may be a percent off here or there, so it's not that we will be drastically out of the number I've mentioned to you.

Jinesh Gandhi: Okay. And the growth we are seeing of -- strong growth that you are seeing, is that leading to market share gain? Or market also is growing quite strongly?

Rajiv Poddar: Market share gain is part of it.

Jinesh Gandhi: Okay. So secondly, on the mould capex which we have announced, can you talk a bit more about it? Is it primarily the replacement capex we are doing for the mould capacities? Or is this totally new for the new SKUs that we are adding. If you can throw more light on that.

Rajiv Poddar: Yes, it's basically for mouldour new moulds and new growth aspirations. So to keep that in-line, we will be going on new SKUs, as we mentioned, solid tyres, bigger OTR tyres, the tracks. So we'll be making all those SKUs, so we need the back end for that.

Jinesh Gandhi: And I mean this kind of capex of INR300 crores. Can you give some sense on what kind of SKU addition that can happen or what kind of revenue generation we can do from this kind of INR300 crores kind of capex or more?

Rajiv Poddar: There will be no revenue because this is a service that we are doing for our tyre business. So there will not be a sell-and-buy scenario, so there will be no revenue. It will give us better control over the quality for our finished products and also reduce our lead times to go to the market with any new product.

Jinesh Gandhi: Okay, got it, but this is largely for the OTR segment, not for the agri segment?

Rajiv Poddar: No, no, everything, all segments, so agri, OTR, solids, everything can be considered.

Moderator: Next question is from the line of Garvit Goyal from Nvest Analytics. Please go ahead.

Garvit Goyal: My first question is on Europe demand side, so how Europe demand for tyres for agri and OTR is shaping up. Is the worst over? Or headwinds are still there?

Rajiv Poddar: So we believe the worst is over, but with the new geopolitical scenario, there is again doubt of uncertainty cast over the end users and distributors. So the way it would have responded, it will take a little longer because of the new scenarios we have witnessed over the last 3 to 4 weeks.

Garvit Goyal: And sir, you mentioned India is doing well. So how much are volumes, India, be this quarter, both Q-on-Q and Y-on-Y?

Rajiv Poddar: As I mentioned, India contributed to about 29% of our sales.

Garvit Goyal: And sir, you mentioned to the earlier participants regarding the brownfield projects, like small brownfield projects we are looking for, but our total capacity is 3,50,000. And we did somewhere around 3,00,000 in FY '23, so are you seeing any kind of risk going ahead because of any kind of slower growth in India's tyre industry going forward?

Rajiv Poddar: No, not in the Indian tyre industry, no.

Moderator: Next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh Just looking into the annual guidance we've given which broadly implies 10%, 12% sequential growth in the second half; and then taking into account all the four segments that broadly we do on the export side, if I was to divide replacement, OEM and then OTR, agri U.S., Europe. Which are the pockets where you think growth will lead to in the next 6, 8 months, you see the maximum demand traction? And which are the ones which are looking more -- weaker? So if you could comment on that. That's the first question.

Rajiv Poddar: So I can comment on that geographically. So, export overall has got uncertainty because of the geopolitical scenario. On the India front, we're seeing strong demand, so which should hold. So that's on the geography front. I think, on the product mix, the categories of agri, OTR, wherever the demand is strong, it is not -- I mean, this is not the end user demand that has moved. It is the confidence that is not there in the system. So overall, it is affecting all the segments on that basis. That's why internationally, we are facing some uncertainties.

Binay Singh And sir, in the opening comment, we added that, in June, we had shipped some units, so that got reflected in sales in this quarter. So then retail sales for the quarter would be slightly lower than -- like, than the dispatches. Or the dispatches...

Rajiv Poddar: Yes. You're right...

Binay Singh Marginally lower.

Rajiv Poddar: Marginally lower, yes.

Binay Singh And sir, just lastly, on the pricing side, we've seen commodity pressures again inch up, so in that light, do you -- how do you see the margins in the near term? Or will they be sustained at these levels? And also in these markets do you see OEMs will be able to pass on these hikes to the consumer?

Rajiv Poddar: So we believe the EBITDA margins would sustain. And as we've always mentioned, that we take -- our endeavor is to maintain it between 26% to 28%, and we are working towards that.

Moderator: Next question is from the line of Raghunandhan NL from Nuvama Research. Please go ahead.

Raghunandhan NL: Can you give some more color on your efforts as to how you look at the achievement of 10% market share in the medium term?

Rajiv Poddar: So basically we have identified pockets where we have potential to grow, segments which we have potential to grow. So that's for geographies and segments, so we are working on that. As we mentioned earlier, in my call last quarter, we are looking at new products like solid, tracks, etcetera to be added to the product basket to help us get there as well. So it's a mix of everything we will do to help us reach this market share.

Raghunandhan NL: And on the carbon black sales to third parties, broadly, what would be the revenue from that category? Even if you can quantify in terms of percentage in terms of revenue, that will be helpful.

Rajiv Poddar: 6% to 7% of the top line would come from that revenue.

Raghunandhan NL: Got it, sir. And in terms of euro rates for FY '24 and first half of '25, how are you looking at that?

Mr. Bajaj: So '24 full year, i.e. FY23-24 full year, will be 89, 90 approximately. And for next year, we have covered 25%, 30% only, which is around 93, 94.

Raghunandhan NL: 93 to 94, thank you so much for that sir. One last question. In the recent Volvo results, the global Volvo indicated a weak outlook for the OEM segment for construction equipment in North America and Europe. Compared to the weak underlying industry demand, Balkrishna always does better in terms of market share gains. So, what color can you share on how you look at the industry and how the market share gains are happening?

Rajiv Poddar: So we are also seeing similar trends.

Moderator: Next question is from the line of Pramod from Incred Capital. Please go ahead.

Pramod: Sir, the first question is with regard to India. I think there is a disparity in your market share by region, so what will be that and how do you plan to cover up that market share gap in the other regions? Because if I understand, with developed markets like Punjab, Haryana and all, your products are well accepted, and you have a superior market share, but what is your plan for other markets and hence the medium-term volume projection for India?

Rajiv Poddar: I think we have a good reach across pan-India. And it's not that we don't have a good market share in other regions. We have a good market share everywhere and are working to grow on that. So the foundations have been laid and the results should be coming in the next few years, which is why we are quite confident of our number that we are telling you.

Pramod: And if I'm not wrong, you are number two in the replacement market now in the tractor. Is that a fair assumption?

Rajiv Poddar: No, I don't have that detail.

Pramod: Okay. And the second question is with regard to the mould capex. So is it fair to understand: You always procured moulds internally, right...

Rajiv Poddar: Yes. We already have our mould shop in Dombivali and are now expanding it. And instead of expansion in our existing plant, we've done it in Bhuj because that's where our current 60% of our production is. And going forward also, that will be where we will be expanding, so we will have the logistic benefits of placing it over there.

Pramod: And considering you are setting up a new mouldmould facility, I understand it is with your growth ambitions which you have in plans. Does it also mean your maintenance capex will drastically increase, compared to what you guided for INR300 crores?

Rajiv Poddar: No, no.

Pramod: Because you are setting up a new division for the industrial mould. Hence, I wanted to just check on that.

Rajiv Poddar: No, no. It will be in-line on -- even mouldthe mould shop is already there, the capex is negligible. So, the maintenance capex is negligible, so it should be similar to that.

Moderator: Next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: So on the point of market share in India as we talk about. So if you do just back of the envelope calculation: We did about 137,000 metric tons total. And 28% of that comes to about 38,500, but when we look at the Indian market units, so it -- as in the volume number doesn't come in metric tons while we share it in metric tons, but what is available online or outside is basically in million units, so would you be able to share more color on that, as to how much metric ton leads to one unit on an average? That will help us to...

Rajiv Poddar: So we cannot share those details because we are making tyres' weights from 2 kilos a unit to 6,500 kilos a unit, so it's very difficult to give numbers. We've always spoken in metric ton and will continue to do so. So units, in our case, will not be a true representation because of the weight differences...

Ankit Kanodia: Right. So my follow-up question with this is 4% to 5% sounds that is too low for the Indian market because competitors staying which are there in the export market when we look at the Indian market? Do we have the same competitive intensity here? Do we have the same...

Rajiv Poddar: We started the India market only in the last 6 years, so we have been growing and will continue to grow. Our estimates are these are our volume share, and this is where we stand, and we aspire to reach a 10% market share. That's what is -- we are working towards.

Moderator: Next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: how much current inventory at a dealer level in the export and domestic market, sir?

Rajiv Poddar: It's at normalized levels.

Abhishek: So it is at two months or three months, sir?

Rajiv Poddar: Between that two to three months range.

Abhishek: And there's an expectation for an increase in RM basket, so in this case, can we see a higher inventory build-up by dealers in the coming days? And that's why dispatches may see positive momentum?

Rajiv Poddar: We don't -- we are not very sure because of there is uncertainty in the market because of the new developments on the geopolitical side, but we'll wait and watch. We are ready if it comes up, but we'll wait and watch. We are not very sure at this stage.

Abhishek: Okay, sir. And my last question, on the competition side, as few Indian players are being aggressive in export and increasing their capacity in the OHT segment. So, how do you see competition from the Indian players in the export market?

Rajiv Poddar: We have our vision. We have our mission, and we are working towards that. We are only 6% of the global market share, and we intend to reach 10%. We are focused on that. There is a huge market available for players to come and go. There is currently 94% market available. And going forward, this will become 90%, so we have focused on that. And we focus on our vision. That's our way of moving ahead -- with our teams.

Moderator: Thank you. Next question is from the line of Joseph George from IIFL Securities. Please go ahead.

Joseph George: A couple of questions. One, when the RM market was coming off the last two quarters or three quarters, you had cut prices to pass on some benefit. Now that RM basket is starting to increase again, are you likely to increase -- or have you already increased prices? Or are you likely to increase prices, effectively reversing what you did when the basket was coming off?

Rajiv Poddar: So there was a lag that time as well and we are seeing a lag here. We've not taken any price increase. And we are not in the -- in this quarter, looking to do any price increase, but we will wait and watch. Let's see. If there's some sharp movement, we may return to the drawing board and take a call, but at this stage, nothing is pinned for the short term.

Joseph George: Okay, understood. The second question was in relation to the advanced carbon black project. When is it likely to be commissioned? And I'm guessing the entire output will be for external sales, third-party sales, that is not so captive. And how much can it add to revenue whenever it ramps up to 80%, 90% ideal production?

Rajiv Poddar: As we had mentioned, it will be done in the second half of next financial year. We are continuing with that position. As of now, it is progressing well. Yes, you are right. It will be 100% third-party sales. On the revenue should be around INR400 crores to INR600 crores, considered at full capacity, yes.

Moderator: Thank you. Next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Good morning Rajiv and team. Rajiv ji, my question was on the capex on the mould capacity, so could you throw some light on a few fronts. Do we expect the number of SKUs to go up from 3,200, what are you targeting there? Secondly, what cost saving are you expecting from this expansion?

And the last one is historical, how have we accounted for the mould expense? Is it through stores and spares, directed to raw material or through maintenance capex? Just some clarity on that front.

Rajiv Poddar: So I'll go backwards if that's okay to your questions.

Lokesh Manik: Sure, sir, yes.

Rajiv Poddar: So we capitalize cost of it. Mould plant -- your second question was what cost saving you get. I don't think we are looking at it as a cost-saving but better control over the mouldmould's quality, which will impact the end finish of the tyre. So that's what we are looking at.

Lokesh Manik: Okay. And number of SKUs, sir?

Rajiv Poddar: The number of SKUs, we will continue to grow up. This will only accelerate the speed of -- which is there. And also, it is in line with our -- whenever the brownfield projects come up, they will need moulds, so we will have not to look and wait for third party, but we can do it in-house.

Lokesh Manik: But some number, 5,000, 6,000, you have in mind, increase the number of SKUs?

Rajiv Poddar: No. We don't have that in mind because, generally, we are adding close to 100-odd SKUs every year, which we will continue.

Lokesh Manik: Understood. Would this increase the costs of mould? Because we've had somewhere around INR5 lakhs, INR6 lakhs per mould, so any -- do you see that happening on the cost front?

Rajiv Poddar: So it depends on the size of the mould, because, as I mentioned earlier, we made tyres for ATV and go-carts, which are about 2 kilos, and going up to the larger tyres which are 57 inch and weighing 6.5 tons. So very difficult to give you the cost of the moulds.

Moderator: Thank you. Next question is from the line of Chirag from Keynote Capital. Please go ahead.

Chirag: Most of my questions are answered. I just want to have a couple of more. One, sir, I just wanted to know what contribution from carbon black that we have in this quarter?

Rajiv Poddar: Roughly 6% to 7%.

Chirag: Secondly, sir, on the Indian market, I just want to know. What is our strategy? Is it similar to the pricing strategy of international markets? Or it is like...

Rajiv Poddar: Yes, yes, it's similar. It's similar to the international markets.

Moderator: Next question is from the line of Zubin from Ambit Investment Management. Please go ahead.

Zubin: Sir, I just wanted to know. After quarter 1, we had guided that the realization for this year would be around 300 is what company was targeting. Looking at the last three months, would we still maintain those numbers?

Mr. Bajaj: For remaining quarters, as we told earlier, the 23% to 25%, we should maintain the EBITDA margin.

Zubin: Right, sir. And sir, sorry. I joined a little late. If you could just again repeat the volume guidance for this -- for FY '24, sir?

Rajiv Poddar: So we have not given volume guidance, but what I've said -- I'll just read out the exact statement that I read. We expect a stable trajectory to continue on volume and a better H2 financial year '24. However, given the H1 FY '24 related challenges and volume performance, we expect volumes to de-grow marginally the whole financial year for this year.

Moderator: Thank you. Next question is from the line of Meeta from Circulate Capital. Please go ahead.

Meeta: I want your thoughts on the extended producer responsibility, which is coming into force and reclaimed rubber getting into the tyres?

Mr. Bajaj: For reclaimed rubber, whatever percentage is possible, we are already using it. And for others, we are working with our supply channel partners- on how we can do the better and on sustainable basis.

Meeta: But the EPR law states that the amount of reclaimed rubber to be used is pretty high. And going ahead, wouldn't that be a challenge?

Mr. Bajaj: Yes, it will be challenging because we must maintain the quality. We can use only a certain percentage, not above that.

Meeta: How much is percentage that you're using today?

Rajiv Poddar: We don't have that detail.

Meeta: And how are you building your supply chain? Because building a supply chain, you can only use commercial vehicles reclaimed into the new tyres, right?

Rajiv Poddar: Ma'am, this is a work-in-progress. We may not be able to share details of it online, so we'll -- I'll request you to wait and watch, once we have more concrete things to announce on this.

Moderator: Thank you. Next question is from the line of Disha Sheth from Anvil Share & Stock. Please go ahead.

Disha Sheth: Yes. Sir, this might be a part of a repeat question. I just wanted to confirm on the same sense. We can see a quarter-on-quarter improvement in sales numbers, so can we expect, from here on, we can expect things to improve quarter-on-quarter and year by and worst is over. If you can...

Rajiv Poddar: Yes. We are waiting and watching. We are hoping for that. We are ready. On the volume front, and the EBITDA front, as my colleague mentioned, we are estimating some improvements to come in. And this is what we have always -- mentioned in the last quarter call as well.

Disha Sheth: Okay. And sir, as India volumes are growing, it is around 30% of sales. So as it grows faster than Europe and US, it may affect the margins because we will not have that labor arbitrage which we have in the export market. So if you can throw some light?

Rajiv Poddar: So firstly, this 30% is a base effect of the European market slowdown because, once that comes back, those markets, those volumes will also come back. So that is why it may not give you a true reflection of this.

As far as realization is concerned, regardless of the effect of labor arbitrage or not, we are getting similar realizations from India and overseas, so we are not too bothered about where those markets are -- where the products are being sold. Because for us both markets are giving us similar realizations.

Moderator: Thank you, ma'am. Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Sir, quickly, I want to check on the capex part. We have already spent about INR595 crores in the first half and are guiding for INR900 crores, so is the large part of the project largely done given balance is just about INR300 crores for the second half?

Rajiv Poddar: Most of the capex is -- and we've already completed the cycles. And that's why this is reflecting in the numbers.

Jinesh Gandhi: Okay. And secondly, in this quarter, if I look at the gross margins, they were broadly stable on Q-o-Q basis. And this was despite better euro-INR realization and probably some savings on RM costs and better mix in form of higher OTR. So why margins are stable on Q-o-Q basis? Any sense on that? Yes, I was referring to gross margins?

Rajiv Poddar: Margins have -- gross margins will remain stable, so because most of the items where the cost was getting impact was on freight and all which comes below after gross margin.

Jinesh Gandhi: Okay, but higher OTR and euro-INR would have some benefit on gross margin, right? Or that gets...

Moderator: Thank you. The next follow-up question is from the line of Mumuksh from Anand Rathi. Please go ahead.

Mumuksh: Sir, the rest of the world has also declined for the last few quarters. What are the challenges in those markets? And how do you see the market share improving over a medium term?

Rajiv Poddar: So as we've been mentioning, the overall international market is going through uncertainty and many headwinds. So we are fighting on those and waiting to see how it progresses.

Mumuksh: And how do you see the market share there, sir, in the rest of the world regions? Which markets do you see large potential, sir?

Rajiv Poddar: All over there. As we've mentioned, it is in the CIS countries of Europe, the Americas put together and also some parts of Asia.

Moderator: Thank you. Next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir, how is the current situation in -- of export in CIS countries? I know it was impacted badly due to the Russia and Ukraine tussles. Can we expect that second half will be better in these geographies?

Rajiv Poddar: It's too early to comment because the geopolitical tensions in this region are not yet over, so we are waiting and watching. We have put our distribution network and all is in place, so we'll wait and watch. We'll come back with more clarity towards the next quarter.

Abhishek Jain: And sir, how do you see the potential of Australian and Brazilian market and, especially in the terms of OTR segment in the coming days? What kind of volumes are you projecting there?

Rajiv Poddar: So I mean we are working normally. For us, we are seeing some growth. And we are waiting in -- I mean we are also pushing in those regions.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Rajiv Poddar: So we thank everybody for taking time out and coming to our call. We'll see you in the end of Q3. Thank you. Have a good day.

Moderator: Thank you, sir. Thank you very much. On behalf of Balkrishna Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.