"Balkrishna Industries Limited
Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Balkrishna Industries Q3 FY2022 earnings conference call hosted by DAM Capital Advisors 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 the date of this call. These statements are not the guarantees of future performance and involve risk 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 this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Jain, from DAM Capital Advisors. Thank you and over to you Mr. Jain!

Chirag Jain: Thank you, Neerav. Good morning everyone. On behalf of DAM Capital Advisors, I welcome you all to the 3Q FY2022 Earnings Conference Call of Balkrishna Industries. To represent the management we have with us, Mr. Rajiv Poddar, Joint Managing Director, and Mr. M.S. Bajaj, President Commercial and Chief Financial Officer and Shogun from SGA, Investor Relation Advisor to the company. I would like to hand over the call to the management for brief opening comments post that we will begin with the Q&A session. Over to you, Mr. Rajiv!

Rajiv Poddar: Thank you. Good morning everyone and thank you for joining us today. Hope all of you along with your near and dear ones are safe and healthy. Along with me, I have Mr. Bajaj, President Commercial and CFO and also SGA, our Investor Relations Advisors.

Let me begin with performance updates. Across geographies we continue to see robust demand for our products. The macro challenges continue to be in terms of raw material cost and logistics. Specific to the Q3FY22 higher power and fuel costs and increased marketing spends besides raw material cost pressures have impacted EBITDA. Having said that we continue to maintain 28% to 30% EBITDA margin on a long-term sustainable basis.

All our capex plans are on track and we expect to take benefit of the strong demand via the capacity additions at Waluj and Bhuj plants.

Let me recap the capacity profile. The current achievable capacity is 285,000 metric tons per annum including the new Waluj plant that commenced operations in September 2021. The Brownfield capex at Bhuj announced in February 2021 will add 50,000 metric tons per annum. While the old Waluj plant which is being revamped, the capex for which was announced in November 2021 will add 25,000 metric ton per annum.

Accordingly, the entire capacity by the end of financial year 2023 will be at 360,000 metric ton per annum of achievable capacity. At BKT while we remain focused on growing our business we continue to invest in sustainability, whether it is solar power investments, co-generation power plants, tree plantations, safety, and hygiene protocols for workers at plants, green products and training and education. We are now in the process of ESG review and will be publishing our first integrated annual report in the 60th year of our company thereby giving you a more detailed view on our processes and practices for sustainability.

The board of directors have declared a third interim dividend of Rs.4 per equity share in addition to the Rs.8 per equity share that has been paid for the first half of this financial year. Additionally, the board of directors has declared a special dividend of Rs.12 per share to mark the Diamond Jubilee year that is 60 years of our company.

With this I now move on to the operational highlights. Our sales volume for the quarter was 70,320 metric ton, a growth of 18% year-on-year. For nine months of the financial year sales volume stood at 211,676 metric ton registering a growth of 33% year-on-year.

Our standalone revenue for the quarter stood at Rs. 2,079 Crores which includes realized gains on foreign exchange pertaining to sale of Rs. 49 Crores.

For nine months of the financial year 2022 revenue stood at Rs. 5,987 Crores, which includes realized gain on foreign exchange pertaining to sales of Rs. 94 Crores. The nine months of this financial year 54% of the sales came from Europe, 18% from India, 17% from America and the balance from Rest of the World.

In terms of channel distribution and channel contribution 70% was contributed from replacement segment while OEM contributed to 27% with the balance coming from offtake.

In terms of category, agriculture segment contributed 66% in the nine months of this financial year while OTR, industrial and construction contributed 31% and the balance came from other segments. The standalone EBITDA for the quarter was at Rs.507 Crores with a margin of 24.4%.

The EBITDA for the quarter has been impacted by higher RM cost to the tune of 190 basis points. This is on QoQ basis along with higher expenses primarily on the power and fuel and marketing expenses. For nine months the EBITDA stood at Rs. 1.606 Crores with a margin of 26.8%.

Other income for the quarter stood at Rs. 31 Crore while unrealized gain stood at Rs. 17 Crores. For nine months of the financial year 2022 other income stood at Rs. 133 Crores while unrealized gain stood at Rs. 60 Crores.

Coming to the net forex items for the quarter. We incurred a net forex gain of Rs. 80 Crores which includes realized gain of Rs. 64 Crores and unrealized gain of roughly a Rs. 17 Crores. For nine months financial year 2022 we incurred a net forex gain of Rs. 190 Crores which includes realized gain of Rs. 130 Crores and unrealized gain of Rs. 60 Crores.

Profit after tax for the quarter was recorded at Rs. 329 Crores with a margin of 15.8%. For nine month of the financial year profit after tax stood at Rs. 1,037 Crores with a margin of 17.3%.

In nine months for the financial year 2022, profit after tax was impacted by crystallization of contingent liability to the tune of Rs. 65.4 Crores post completion of certain tax assessments which was charged in Q1 and Q2 of this financial year.

Our gross debt stood at Rs. 1,881 Crores at the end of December 31, 2021. Our cash and cash equivalents were at Rs. 1,927 Crores implying a net cash position. For nine-month financial year 2022 we incurred a total capex of Rs. 912 Crores of this approximately Rs. 852 Crores has been spent on the new capex program of Rs. 2,250 Crores which was announced earlier.

For the Q3 of financial year 2022 the Euro hedge rate was Rs. 87.3, forward hedge rate for currently stands at around Rs. 89.60.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: How much price increase we have taken from January?

Rajiv A. Poddar: In this current quarter we have not taken any price increase. In the Q3FY22 we have taken roughly 2% to 3% of price increase.

Ashutosh Tiwari: Which ones you have taken?

Rajiv A. Poddar: In the beginning of Q3 we have taken a 2% to 3% price increase.

Ashutosh Tiwari: There is no price increase post October, is what you say. And how much RM cost increase we expect in this Q4FY22 versus Q3FY22?

Rajiv A. Poddar: 2% to 3%.

Ashutosh Tiwari: Will there be further margin pressure going ahead like because we did not take price increase so far?

Rajiv A. Poddar: No. We expect it to be similar to current levels.

Ashutosh Tiwari: Lastly, obviously because the increased ocean freight costs we are basically passing that to the customers in our pricing today, whatever realization we had recorded of Rs.296, what would the freight cost component in that?

Rajiv A. Poddar: We do not have the current breakup with us we can get back to you.

Ashutosh Tiwari: Thank you. I will join back the queue.

Moderator: Thank you. Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: I have one question, with respect to our current run rate of production we are already at about 70,000 plus MT, so do we expect any further improvement in this production level till the time new capacity come or we should be in that 70000 to 75000 quarterly run rate of volumes for next three quarters?

Rajiv A. Poddar: Yes. This should be the run rate for the next three quarters..

Jinesh Gandhi: Now with respect to the end markets growth so are you seeing growth across segments be it agri and OTR, if we go by the indicators for agriculture side there seem to be some softening, even in the global market, India has been weak but global also?

Rajiv A. Poddar: It is across all the segments of products we are seeing good demand.

Jinesh Gandhi: No softening yet in any of the categories. Great. Thanks I will fall back in queue.

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

Vimal Gohil: Thank you for the opportunity Sir. Sir firstly I would like to know in conjunction with the global OHD market what would be our market share currently and then I have a couple of data point questions?

Rajiv A. Poddar: Basically, it would be roughly about 5%.

Vimal Gohil: This is your total market share including agri and aftermarket?

Rajiv A. Poddar: So global market share across all off-highway segments our market share is about 5% approximately.

Vimal Gohil: How much is the market grows at this point in time?

Rajiv A. Poddar: Market growth is roughly about 3% to 4% year-on-year.

Vimal Gohil: I was just looking at some data and the market share, the overall market has not grown for the past few years whereas BKT has indicating market share gains. So just wanted to get a sense that we in terms of the industry are we at the bottom end of the cycle and the industry could probably show some market growth driven by mining and infrastructure in the US etc., so do you have any views on the overall market growth going forward?

Rajiv A. Poddar: I think if you see an average over the period of five years the average growth would continue to remain between 3% and 4%, you could be some spurt of growth here and there but averagely it would be between 3% and 4%.

Vimal Gohil: Our inherent assumption is that our market share will continue to grow and obviously our volume growth is going to be higher?

Rajiv A. Poddar: Yes.

Vimal Gohil: Just two things, opex growth in this particular quarter of 50%-odd YoY, could you just highlight the reason what has contributed to that? And secondly on India volumes so they have been sort of soft for a couple of quarters now, how should we sort of read them going forward? Should we expect an improvement or what is the reason for that particular softness?

Rajiv A. Poddar: So basically, all the opex impact apart from raw material that has been on two main accounts which are power and logistic cost.

Vimal Gohil: India volumes, what has led to this sharp decline in the last in the last couple of quarters and how should we see it going ahead?

Rajiv A. Poddar: I mean the decline is in percentage terms, but if you see the numbers per se they are not declining it is because the way the growth has come and export has got a higher share of those products, it has been for that. It is not that there has been a reduction in absolute numbers of tonnage being sold in India. When last year was about say like 220,000 metric ton we were at 22% of that now this year in our target guidance is about 285,000 MT, out of that we will be roughly 20% by the year end. So if you see the actual numbers there is a growth, the growth percentile was smaller but absolute number there is a growth but if you see the percentile you will see some difference in there.

Vimal Gohil: Anyway probably I will take this offline. Thank you.

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

Abhishek Jain: Thank you Sir. How much increase in the ad and promotion expenses is in nine-month FY2022 and how would be the trend going forward?

Rajiv A. Poddar: As we mentioned that we spend an aggregate to the tune of Rs. 120 Crores to Rs. 130 Crores and you know we see a huge benefit of these advertisement and sponsorship that we have been doing and this helps us in our brand building activities and brand recall activities and we expect this to continue for the next few years to the same tune.

Abhishek Jain: Despite the muted tractor volumes by OEM our sales mix has improved towards the OEMs and also margin is going down so have you won new business on the OEM side in the last quarter?

Rajiv A. Poddar: There is a marginal increase on the OEM side but that is just a part of our business cycle which is there so it is not anything to do with lower prices or anything. It is just a business cycle. It is a marginal gain.

Abhishek Jain: Is it also impacting the margin?

Rajiv A. Poddar: No. That is why I said it's a marginal gain not to impact our EBITDA margin or anything. EBITDA margins have been impacted mainly on three accounts your power fuel, logistics, raw material, and some part of it has been also marketing expenses which have got bundled up together in Q3.

Abhishek Jain: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Nakshita Mehta from Kredent Asset Management Limited. Please go ahead.

Nakshita Mehta: Good morning Sir. I had questions on again the freight situation and the cost situation basically how long still you think this will persist? Can you just give us an overview of the industry?

Rajiv A. Poddar: On the freight cost it is a challenging situation for everybody. It is unprecedented times. There are two aspects to that one is availability of containers to dispatch the material and second is the cost, so we are also waiting and watching and reviewing it on a daily basis. It is very difficult to make any sort of comments on that at this stage, but we are waiting and watching and reviewing it closely. That is all what we can say at this stage.

Nakshita Mehta: Will then our order book or our sales volume be affected because of this, I mean how much do you think it will be impacted?

Rajiv A. Poddar: I think we are our team has been able to do a good job to make sure that sales are not affected due to availability. We have managed to keep that in check and we are quite hopeful to continue to be able to manage the situation from availability point of view. Cost is something which is a second aspect at this stage, and we are reviewing that closely and we will take a call as and when you know we get more clarity on that.

Nakshita Mehta: Just another question that your existing capacity is I think to like 285,000 metric tons right?

Rajiv A. Poddar: Yes.

Nakshita Mehta: You have given a guidance of volumes also of about 285,000 am I right?

Rajiv A. Poddar: Yes.

Nakshita Mehta: I can assume the 100% capacity utilization and sale?

Rajiv A. Poddar: Almost.

Nakshita Mehta: Thank you so much Sir and good luck.

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

Pramod Amthe: How has been in the international market your competitor pricing reaction in the recent months?

Rajiv A. Poddar: It is broadly in line with what we are doing, and it is in the similar lines.

Pramod Amthe: So for them also the last price hike was five months back or do they take usually a January, February hike and you have not taken?

Rajiv A. Poddar: There is nothing announced so far in this year but we are reviewing and watching them closely and then we will take a call from there.

Pramod Amthe: Second one is considering that many of your competitors might be producing in within Europe and supplying there, how is the power scenario for the OTR tires? What is the power cost for you versus how they compare and does that pressure which is seen in Europe, should that give you a tailwind or a headroom to raise as the competition raises for you also to raise but your costs may not be going down?

Rajiv A. Poddar: Power cost is something which will be generically going up for every week, because internationally coal has gone up not just for India or you know Asia. So the power impact should be similar for everybody across the world but as you said for European equipment manufacturing there the shipping cost would be a little bit of an advantage to them. Also if you see Europe is using mainly gas so the prices of that has also gone through the roof. So that impact would be there for them as well.

Pramod Amthe: As a percentage of sales what might be the competitor's power cost?

Rajiv A. Poddar: No. We do not have those details. We do not have those details.

Pramod Amthe: But you do not expect them to take a forceful pricing action because the power costs have spiked up for them?

Rajiv A. Poddar: They will have to decide for them what they want to do and we are reviewing the situation in case anybody does anything we will also react.

Pramod Amthe: Going forward how do you plan to increase your per kg realization till the new capacity comes on board because you are running full on the capacity and if I have to build further on the momentum on topline it has to come either by the price hike or your own actions on product mix. Anything on product mix improvement to be seen in next to three quarters?

Rajiv A. Poddar: We do not look at product mix from a perspective of short term. It is more about servicing the end user and giving him the entire basket of products that we have so we do not see any product mix change coming up. On a price increase or price hike that is something we are watching closely what the market is doing, how they are doing, how market is accepting and also the cost how they are increasing or are they sustaining and then we will take a call but at this stage there is nothing.

Pramod Amthe: Thanks and all the best.

Moderator: Thank you. The next question is from Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Thanks Sir. I just wanted to understand Sir that your realization in March quarter last fiscal was coming to Rs.57 a kg and now it is Rs.296 so almost Rs. 240 a kg increase, how much of that is price hike, how much is mix change and how much is logistics inflation?

Rajiv Poddar: We do not have a breakup of what is contributing to raw material and what is contributing to logistics but it is mainly on account of both of these and it is a part of the entire cost that we are passing to them.

Basudeb Banerjee: Okay and just because this time the raw material inflation has been so severe, so whenever in future you are seeing some raw material reversal, do you see a corresponding price benefit getting passed on in replacement in sync with peers or you think that is not happening much?

Rajiv Poddar: Normally that is what is the nature of business, it gets passed on there may be some time lag which you are seeing in the current quarter but by and large that is what will happen.

Basudeb Banerjee: In replacement also.

Rajiv Poddar: Yes.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity Sir when we look at the commodity cost and when you are saying that about 2% to 3% further increase you expect in Q4 and does that factor in the current crude prices about $95 or you think based on these numbers there can be further inflation which can come subsequently in the next quarter?

Rajiv Poddar: We are holding old stock also and that is what we are taking that into account and also current oil levels are factor in as well. If there is something drastically upward or downward that may have an impact but with current levels it is factored in.

Siddhartha Bera: Current you would say crude levels are factored and on top of that it will depend. And second question is the price hike, when the demand is so strong and across all geographic and segment, so the pricing action is determined by competitors or what is probably getting to this delay in the increasing prices, or probably in Q4 because of the commodity costs, do not you think you may need to take more price hike?

Rajiv Poddar: We are reviewing the situation, it is not just every quarter that you can pass on. We have taken hikes in Q3 as I said earlier. We are reviewing the situation in case the costs and expenses do not sort of subsidize we will be forced to look at another pricing increase. We are working on that we are reviewing the situation and we will take a call at an appropriate time.

Siddhartha Bera: Okay got it and I will come back in the queue.

Moderator: Thank you. The next question is from Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir firstly a few data points what was the production in the quarter and nine months?

Rajiv Poddar: Roughly 71,150 tonnes.

Ronak Sarda: For nine months, it would be largely in line with what we have reported?

Rajiv Poddar: For nine months it would be roughly 213,000 tonnes.

Ronak Sarda: Thanks, and what would be the RM cost in terms of natural rubbers and synthetic number for the quarter and how it has been for the quarter if you can share the number?

M.S. Bajaj: Synthetic rubber cost is almost same this quarter and last quarter, but natural number cost has gone up, last quarter was Rs.141 to Rs.142 and currently around Rs.160.

Ronak Sarda: Sir I have questions on the commodity side, so we have seen natural rubber having pretty long cycle and for the last decade it has been in a downward spiral. Do you think this is the beginning of a up cycle incommodity especially natural rubber or how do you see the outlook here over the medium term?

Rajiv Poddar: We think that the prices have already shot up quite a bit. We think it will sustain it here or maybe small increase may come on this, but we do not see a very big jump coming up from here.

Ronak Sarda: In its peak in the last decade or maybe in early 2007 to 2008 it was almost at Rs. 240 to Rs. 250, so do you think it can inch up to those levels how is the demand supply situation on ground?

Rajiv Poddar: There is no shortage as such. The demand and supply is fairly even so we that is looking at that we do not see it to jump up drastically from here.

Ronak Sarda: Finally, I missed the Euro hedge rate which you mentioned in your opening remarks so what was for the quarter and what is the forward hedge?

Rajiv Poddar: Euro hedge rate for the quarter is at Rs. 87.3 and for the year is Rs. 89.6.

Ronak Sarda: So Rs. 89.6 for the forward twelve months you are saying?

Rajiv Poddar: Yes.

Ronak Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Emkay Global Financial Services Ltd. Please go ahead.

Mumuksh Mandlesha: Thank you so much for the opportunity, Sir OEM segment has grown strongly over the last few years so what is the outlook in the OEM category for both agri and construction equipment segment for CY2022 and what kind of our performance we expect Sir?

Rajiv Poddar: On OE, we expect to sustain these levels that we have reached and with all the brand building activities we are doing and the brand recognition that is coming through by a couple of percentile it may go up.

Mumuksh Mandlesha: Right Sir and what was it your carbon back sales in a Q3 and nine months Sir?

Rajiv Poddar: To the third party?

Mumuksh Mandlesha: Yes to the revenue and third party as well?

Rajiv Poddar: Third party was about roughly about 17% of our capacity and in terms of revenue it is less than 3% of our overall sales revenue.

Mumuksh Mandlesha: Sir what is the outlook for FY2023 for carbon black sales?

Rajiv Poddar: I think we are reviewing it and we will come back to you in the next quarter about the outlook for next year for the full year we will give you the outlook in the next quarter.

Mumuksh Mandlesha: Thank you so much Sir.

Moderator: Thank you. The next question is from Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Good morning. Thanks for taking my question Sir. My first question is only on tonnage per se, volume growth, so you indicated Q4 tonnage to be similar at 70,000 tonnes usually a Q4 has been typically quite strong per se but you seem to indicate a similar volumes for Q4 and the Q1 and Q2 of the next fiscal also. So are there any headwinds in specific geographies or segments that you are seeing that keeps us slightly cautious when it comes to the near-term outlookper se?

Rajiv Poddar: Basically, you are absolutely right that our Q4 has always usually been the strongest but here our bottleneck would be capacity zero, we are already running it about 100% capacity close to 100% of our capacity and this would be our run rate for the next three quarters till the new announced projects start kicking in.

Shyam Sundar Sriram: Okay so the new capacity will come in at Q3 beginning of next fiscal?

Rajiv Poddar: Yes.

Shyam Sundar Sriram: The other thing is Europe as a geography has done exceedingly well if you look at Q2FY22 and Q3FY22, I am leaving Q1FY22 aside because the base is very different there, just in Q2 and Q3 the volumes growth as well absolute volumes has been quite strong there this is all largely agri led in Europe or what is happening if you get some flavor?

Rajiv Poddar: Agri is also strong, which was our strong forte but also, we are seeing a good offtake in the industrial construction and OTR for which we are going through a lot of trials and now that the product has been accepted for that as well, so the response has been good in both sectors.

Shyam Sundar Sriram: The other point is from a cost perspective you indicated around Rs. 130 Crores per quarter kind of marketing ad and promotional expense so that would imply some close to Rs. 520 Crores for this fiscal year compared to close to Rs. 340 Crores for FY2021, I understand we have to do these spend to improve our brands?

Rajiv Poddar: Sorry to interrupt you. The number that I told Rs. 120 to Rs. 130 is for the whole fiscal year not for one quarter.

Shyam Sundar Sriram: Okay what is the compatible number for last year?

Rajiv Poddar: It was similar but if you recall it last quarter, I said that we are going to increase marginally so I think it was about Rs. 100-110 which is now going to Rs. 120-130, everything is for the whole year and not for quarter.

Shyam Sundar Sriram: Understood Sir. Sir my question is we are in commodity inflation scenario, logistics costs are going up, we also have to keep up our marketing spends per se to remain competitive therefore in this scenario and not lose market share or anything of that thought, is it would be more prudent to cut a margin band so that we can remain more competitive in the marketplace while maintaining our investments on the brand as well as the other inflationary headwinds we are facing on different ones?

Rajiv Poddar: No. We always look at it long-term so our guidance has always been that we would like to sustain it in the long-term. If you recollect my comments and all from last year's quarters when we were at EBITDA 32%-33%, we expect a BIL to sustain between 28% and 30% and which we are continuing. Quarterly hiccups can come both upward as well as downward but if you look at it as a management our endeavor is to continue to be in the bracket of 28% to 30% long-term sustainable EBITDA margin and that is what we are working towards.

Shyam Sundar Sriram: That is very helpful. Just to before I conclude one last point Sir, so given the capacity challenges we are facing and from Q3 onwards our new capacity is coming through but that capacity will also take some time to ramp up, so just directionally will a double-digit volume growth for next year be more challenging given the capacity challenges we are facing at this point just this direction parameter I am not putting your report for a specific number?

Rajiv Poddar: For next year our guidance we will give you at the end of Q4 in our next quarterly result. It is too early to give any guidance. Let us complete this year. Let us complete our guidance what we have given for this quarter and this year and let that get completed and then we will come back to you at the right time for next year's guidance it is too early to comment on that we know you are not even starting the year so give us time and we will come back to you on that.

Shyam Sundar Sriram: Thank you very much.

Moderator: Thank you. The next question is from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Two questions from my side. If I look at the past two years, it seems that the contribution from the OEM segment has been increasing so how are you balancing commitments to OEMs as well as maintaining the replacement demand at a time when you have capacity constraints and is this possibly the reason for the margin pressure apart from the input cost aspects that are there? This is the assumption that you get better pricing in the replacement market if you can comment a little bit on this for both agri and OTR?

Rajiv Poddar: I will comment on a company as a whole, as I mentioned in my opening remarks the EBITDA margins were effected on higher power and fuel cost during the quarter because of some shutdowns and we had to run our coal boilers, unfortunately at that time the coal prices had started to go up so that impact came in and there was some increase in raw material cost and logistic cost along with that there was a bunching of some marketing spends which came in Q3 which were actually supposed to be for the whole year, so that is what has led to this. So we do not see it as a increase of OEM or a replacement market or any of that to have an impact our EBITDA margins. We do not expect that to also drag down our EBITDA margin so that is not what has impacted that.

Devanshu Sampat: Would it be safe to assume that margins are pretty much similar for both segments?

Rajiv Poddar: Yes.

Devanshu Sampat: What is the breakup between OEM replacement in OTR if you do not mind sharing that?

Rajiv Poddar: So we do not have that segment-wise break on the OTR and we can give you as a company as a whole we were 70% from replacement and 27% from OEM and balance three was optic.

Devanshu Sampat: Last question post all your capacity expansion and including the carbon black 200,000 tonnes how much would be the requirements on a 360-tonne tire capacity?

Rajiv Poddar: Roughly about 25% to 27% of our finished product, so if you are talking about 360,000 so roughly between 90,000 to 100,000 tonnes would be our consumption.

Devanshu Sampat: Thank you and wishing you all the very best.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Thanks for the opportunity. It is not more of a question it is more of a thought. The way in which we backward integrated into carbon black has really favored us in such a situation where the crude prices are going up so that is really commendable. So similar lines as a company would spend a lot of money on automation modernization so our power cost is one major factor so anything that we intend to do for putting up some kind of a solar plant or reduce our dependency or increase our captive power generation, so anything on that will add up to sustainable margins or increase our margins as well so is there anything back of the mind could you quickly share?

Rajiv Poddar: Thank you for your thought. It sort of validates what we have been doing at BKT because if you see our program for expansion we have expanded to set up our new captive power plant already at Bhuj which is ongoing in the capex spend that we are talking about so that is already there. Even if you see my opening remarks where we said about solar power investments so we have done some of that and we are reviewing the situation and we will take it forward as and when other projects are down. Coal prices and power prices went up because in the last quarter for a few days there was a shutdown in our co-gen power plant by which we had to run our older boilers which run on coal and that had impacted the power cost.

Sunil Shah: Just one sense how much of our power requirement is currently made from our captive sources as of now and then when we come to the additional capacities how would that be?

Rajiv Poddar: So at Bhuj we are currently at about 80%. Once with the new product production expansion new power plant coming up we should be close to about 95% and in the other plants it is roughly about 6% through solar power, through windmills etc., which have been generated.

Sunil Shah: Thanks Sir.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: I was asking about the price differential as in what discount we sell our products currently compared to our European and American counterparts at the current juncture?

Rajiv Poddar: So roughly 12% to 15%.

Ankit Kanodia: Okay and do we maintain that going forward also?

Rajiv Poddar: Yes, in the short term we look to maintain that.

Ankit Kanodia: Sir how do we see the situation as we are already near the 100% capacity and our capex plan is going to come up by the end of FY2023, so can there be a situation in the first half of next year where we may not be able to cater to the demand as we have already guided for a very good demand environment?

Rajiv Poddar: That is what we said is that the next three quarters will be we are at full run rate and then once the new production capacity comes onboard you will see the jump coming in.

Ankit Kanodia: Thank you.

Moderator: Thank you. The next question is from the line of Naresh Suttar from SBI Life Insurance Company Limited. Please go ahead.

Naresh Suttar: My questions have been answered. Thank you.

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

Lokesh Manik: Good morning Rajiv and to the team. Rajiv, my question was on the OE customers so what is the nature of contracts do we have with them, I am assuming it would be a little different than what we have with our distributors?

Rajiv Poddar: I think basically it is a little bit more formal in the sense as in agreements and also where we have to give commitments of capacities and all which we are giving and we are adhering to that. There is also a long-term understanding between both parties as to they will continue to make sure that they are buying so then it is a little bit more formal kind of an agreement which both parties they need to adhere too.

Lokesh Manik: Okay and the pricing is it indexed based or would it be spot?

Rajiv Poddar: It is very difficult to give a generic answer. Some cases in the index base, some basis is on the spot and similar to how we are selling and replacement so it is a mix of both.

Lokesh Manik: Okay any rough guidance on the proportion?

Rajiv Poddar: No rough guidance, but by and large the overall replacement and OE margins are similar at similar levels.

Lokesh Manik: That is it Rajiv from my side Sir. Thank you.

Moderator: Thank you. The next question is from Sanjay from Ampersand Capital Partners. Please go ahead.

Sanjay: Sorry if I am repeating the question if you can just help us understand about the margin which you have given that will be bouncing back to 20%-30% in the long-term so what really will make you to go back to the kind of margin level will it be simply declining cost pressure or that would be something more?

Rajiv Poddar: I will repeat my statement once again. What we have always maintained Sir is that our endeavor is to continue to maintain an EBITDA margin of 28% to 30%. During last year and my earlier commentary also you heard when we were at 32%- 33%, we had said that these are not regular. Our sustainable long-term would be 28% to 30% even now when it is down to about 24%, we are maintaining the same but our endeavors to go to 28% to 30%. We are looking at how do we get there would be by price increases. We are going to review the cost structures if the shipping cost raw material prices continue to be strong, we will be forced to pass on that to that respect to our end users; our distributors who will then pass it on.

Sanjay: Last thing if I can just understand from you is that your end customers base is inherently cyclical in terms of demand and of course you have a far lower market share, but you are adding capacity so considering the inherent cyclicality of your end user segment how confident are you about the demand let us say beyond next five to six months?

Rajiv Poddar: Even with the new capacity coming on board our market share will go to between 7% and 8% so it is not going to be where we will be a very big chunk by 30%, 20%, 25% and also the capacity will be added in a phased manner so by the time the capacity comes it is not going to come on day one it will take us few months to ramp up and reach that level.

Sanjay: Does this mean that irrespective of the end market cyclicality you will be able to sustain about something like 10%-12% kind of volume growth each year?

Rajiv Poddar: Yes that is our endeavor.

Sanjay: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Thank you for taking my question, Sir just could you quantify the impact of the higher power cost this quarter and higher freight cost I mean like various rate cost now as a percentage of sales?

Rajiv Poddar: No. I do not have those details that are readily available with me you cannot quantify it.

Sonal Gupta: But I mean like what we are hearing is that freight costs have started coming down and the other thing was I think you were passing on some of the freight costs as a surcharge right so to that extent incrementally that versus Q2 it would not have been a negative right?

Rajiv Poddar: No. Some cost has gone up beyond. We started passing on in the beginning of Q3. The cost went up beyond what we were passing on, so we were reviewing it but as you rightly said the prices started softening and hence, we are not reviewing a price increase in this quarter as what I mentioned to you earlier because it is difficult to pass on and then go back and so we are reviewing the situation for this, for the freight I am talking about.

Sonal Gupta: The freight surcharge you are saying is that there is no incremental increase in that because now the freight costs are now coming down but this quarter it has been higher than what you actually passed on to the customers?

Rajiv Poddar: Yes.

Sonal Gupta: Just another thing was on could you give us a sense of what sort of market share would you have in like European agri tires?

Rajiv Poddar: It would be difficult to give that breakup but roughly about 10% to 12% overall in the agricultural European market.

Sonal Gupta: 10% to 12% in agri European market. Great. Thank you so much.

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

Disha Sheth: Sir I just wanted to ask that when you said the natural rubber is Rs.160 per kg and you mentioned that the margins for Q4 will remain at the similar level at Q3, so I was checking in spite of the increase in the raw material basket how will we manage to keep the margins at the same level is the operating leverage kicking in because of full capacity?

Rajiv Poddar: Yes.

Disha Sheth: That is the reason and Sir on the long-term basis, what is our volume growth guidance or 1x of four to five years, do we plan to increase by 10% to 12%?

Rajiv Poddar: Yes, that is our endeavor.

Disha Sheth: That is it from my side.

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

Ashutosh Tiwari: We had mentioned last quarter that the realized rate was Rs. 87.75 and we are looking at forward rate of Rs. 89.7, but this quarter also the rate is only Rs. 87.3, so when do we expect to realize this Rs. 89.68, will it come through in fourth quarter or it will be next year only?

Rajiv Poddar: It should be because we do not do 100% coverage, there is about 50%-60% of the forward is hedged so there will be some delay or time lag, but we should see it in the next few quarters to come through.

Ashutosh Tiwari: Even though now the mix is almost 50% spot and 50% in forward?

Rajiv Poddar: By and large.

Ashutosh Tiwari: Then because current spot is at 85.5% so then the rate should not increase much in the coming quarters, right?

Rajiv Poddar: This is the average rate so we should see it coming in towards the end of this quarter and then true reflection would be in the next quarter.

Ashutosh Tiwari: Secondly while we are passing on that freight cost element to the customers is it that in case of OEM because they also source locally in their contract, we are not able to fully pass on this spread cost impact versus replacement market or we are able to pass into OEMs as well because they would be buying from local suppliers as well and for them the cost will not be increasing so much?

Rajiv Poddar: Most of our OEM contracts are a mix of it but some of them also on FOB basis so that aspect gets cleared, so we are working closely with the other half whom we are doing with logistic cost we are working with them to see how it can be managed.

Ashutosh Tiwari: Lastly you said that this quarter marketing cost was higher so generally you target at Rs. 120 Crores to Rs. 130 Crores for a full year what was the number for this quarter per se?

Rajiv Poddar: Earlier it would be between Rs. 100 Crores and Rs. 110 Crores which has gone up to Rs. 120 Crores-Rs. 130 Crores, so that differential amount has come in this quarter which will be bundled up.

Ashutosh Tiwari: So that entire Rs. 10 Crores extra has come in this quarter, you mean to say?

Rajiv Poddar: Yes, about that much yes.

Ashutosh Tiwari: That will be all Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nakshita Mehta from Kredent Asset Management Limited. Please go ahead.

Nakshita Mehta: Thank you for taking my question again. I just wanted to understand what percentage does power cost and carbon black cost form and do you see it reducing by this the capacity addition and this new capex?

Rajiv Poddar: We will come back to you on the breakups offline.

Nakshita Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Devanshu Sampat from Yes Securities Limited. Please go ahead.

Devanshu Sampat: Thanks for the follow-up. A few questions about your carbon black views on the market and can you talk about the outlook on the prices and volumes and there is also news of India's largest carbon black player expanding capacity by about 150,000 tonnes by the end of the year so how do you see this playing out?

Rajiv Poddar: On the carbon black our current levels are about Rs.95 approximately and for the current prices are at roughly about Rs.100 per kilo and anyway for us our main business will always be tire and not carbon black so that is not there, so this is mainly for our self consumption and with third party coming in also it will be roughly 3% to 4% of our overall sales volume so it is not new business as such that we are looking at it is just to complement our own tire consumption.

Devanshu Sampat: How exactly are you selling this to third parties? How the distribution is when it comes to third parties are you doing it locally or is it exported?

Rajiv Poddar: It is a mix of there is a small amount which is exported but mainly it is local.

Devanshu Sampat: Mainly local and this 30,000 advance carbon black is it all used in tires or it has other applications?

Rajiv Poddar: No. It is not advanced carbon back it would be specialized carbon black it would be in other industries.

Devanshu Sampat: Thank you.

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

Rajiv Poddar: We thank everybody for taking the time out to be a part of our call and we hope and we wish everyone along with their near and dear ones continue to remain safe in these challenging times. Thank you.

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