"Balkrishna Industries Limited
Q4 FY2022 Earnings Conference Call"

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ANALYST: **MR. BASUDEB BANERJEE - ICICI SECURITIES**

MANAGEMENT: **MR. RAJIV PODDAR - JOINT MANAGING DIRECTOR - BALKRISHNA INDUSTRIES LIMITED**
MR. M. S. BAJAJ – PRESIDENT COMMERCIAL & CHIEF FINANCIAL OFFICER - BALKRISHNA INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Balkrishna Industries Limited Q4 FY2022 Earnings Conference Call hosted by ICICI Securities. 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. 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. I now hand the conference over to Mr. Basudeb Banerjee. Thank you and over to you Sir!

Basudeb Banerjee: Thanks. A very good morning to all the participants and thanks to Balkrishna Industries management for giving us the opportunity to host the call. We have with us Mr. Rajiv Poddar - Joint Managing Director - Balkrishna Industries and senior management of the company. Over to you Mr. Poddar for your initial comments, Sir!

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

Let me begin with performance updates. The geopolitical situation has aggravated supply chain problems, which have increased both the prices and availability of raw materials. Similarly, logistics and freight costs have continued to remain at elevated levels. End user markets continue to remain strong in spite of inflationary trends. The off-highway tyre industry continues to see higher uptake on an account of healthy demand across mining and agricultural markets and the BKT brand continues to gain market share.

Let me know talk about our capex plan. During the quarter, we commissioned 50000 metric ton per annum Brownfield tire plant at Bhuj. We expect complete ramp up in production to be achieved in second half of financial year 2023. Carbon black, the project is on track.

We expect the commissioning of the 55000 metric ton per annum carbon black project along with the power plant in the next two to three months. The advanced carbon black project of 30000 metric ton per annum will be commissioned in second half of financial year 2023.

In November 2021, the board had decided capex at the old Waluj plant at a cost of 350 Crores, for simplicity we will term the old plant as Waluj I; however, the board of directors have now decided to keep this capex investment on hold and continue the operations of the plant in order to have unhindered production and cater to the strong demand and quicker production scheduled demanded by end customer.

As you are aware, the new plant in Waluj now termed as Waluj 2 was commissioned in September 2021, which has a capacity of 30000 metric ton per annum. The total full capacity profile is 360000 metric ton per annum, which will be available by end of financial year 2023.

The board of directors has declared a final dividend of Rs.4 per share in addition to the three interim dividends of Rs.4 per share each and a special dividend of Rs.12 per share announced earlier in financial year 2022, thus the total dividend will be Rs.28 per share.

With this, I now move on to the operation highlights. Our sales volume for the quarter was 77119 metric ton, a growth of 13% year-on-year. For financial year 2022, sales volume stood at 288795 metric ton registering a growth of 27% year-on-year.

Our standalone revenue for the quarter stood at 2432 Crores, which includes realized gain on foreign exchange pertaining to 58 Crores. For financial year 2022, revenue stood at 8419 Crores, which includes realized gains on foreign exchange pertaining to the sales of 152 Crores.

For financial year 2022, 54% of sales came from Europe, 18% from India, 17% from America and the balance from Rest of the World. In terms of channel contribution, 69% was contributed from the replacement segment in financial year 2022 while OEM contributed 28% with the balance coming from offtake.

In terms of category, agricultural segment contributed 66% in the financial year 2022, whilst OTR, industrial and construction contributed to 31% and the balance from other segments. The standalone EBITDA for the quarter was at 576 Crores with a margin of 23.7%.

The EBITDA for the quarter was impacted by higher logistic cost, which has moved up almost 400 basis points quarter-on-quarter basis. In addition to this, we also saw higher power costs. For financial year, EBITDA stood at 2182 Crores with the margin of 25.9%. Other income for the quarter stood at 52 Crores while unrealized loss stood at 21 Crores. For financial year 2022, other income stood at 185 Crores while unrealized gain stood at 39 Crores.

Coming to the net forex item for the quarter we had a net forex gain of Rs.56 Crores, which includes realized gain of 77 Crores and unrealized loss of 21 Crores. For the financial year 2022, we had a net forex gain of 246 Crores, which includes realized gain of 207 Crores and unrealized gain of 39 Crores. Profit after tax stood for the quarter was recorded at 374 Crores while for the financial year 2022, profit after tax stood at 1411 Crores. The financial year 2022, profit after tax was impacted by the crystallization of contingent liability to the tune of Rs.65.4 Crores post completion of certain tax assessment, which was charged in the Q1 and Q2 of the financial year.

Our gross debt stood at 2443 Crores at the end of March, 31, 2022, of which about 1942 Crores is relating to working capital debt, our cash and cash equivalent over at 1932 Crores. For financial year 2022, we incurred a total capex of 1023 Crores on new capex program of the allocated 1900 Crores project.

For Q4 financial year 2022, Euro hedge rate was at Rs.86.5, forward hedge rate currently stands at around 85 levels. For financial year 2023, we expect to clock volumes of 320000 metric ton to 330000 metric ton considering the capacity enhancements from ongoing capex will be available towards the end of first half of the financial year.

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

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir, congratulations on good numbers. Firstly, you mentioned the hedge rate, how much for the quarter realized rate?

Rajiv Poddar: 86.5.

Ashutosh Tiwari: 86.5 and 85 will go subsequently?

Rajiv Poddar: Yes.

Ashutosh Tiwari: Secondly on the Waluj plant, we had mentioned earlier that this plant cannot be used, so is it like the plant emission is still usable or we will incur that capex later on?

Rajiv Poddar: At the moment, it is usable and since there is a strong demand we are continuing to use it and we will decide at a later date about how to go about the planned investment.

Ashutosh Tiwari: So, in that case what is the capex for 2023 and 2024 you can provide?

Rajiv Poddar: Roughly 900 Crores.

Ashutosh Tiwari: 900 Crores capex?

Rajiv Poddar: Yes, 1900 is the total project, I think we have done roughly just over 1000, so the balance will come it is roughly 900 Crores for next year.

Ashutosh Tiwari: Lastly if I may ask, the demand is strong, any colour on the inventory, the distribution channels and all, is that normal where it stands today?

Rajiv Poddar: Yes, it is normal as per whatever standing is normal.

Ashutosh Tiwari: Around three months or so?

Rajiv Poddar: Yes.

Ashutosh Tiwari: Thank you, Sir.

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

Siddharth Bera: Thanks for the opportunity. Sir, my first question is on the freight cost, so even if I look at quarter-on-quarter on a per ton basis, it has jumped sharply by about 50% and if you look at the freight indices and all, it has not jumped that sharply, so I mean also a factor of availability and why is that does not show sharply and if you can just highlight about the outlook they should expect these type of certain levels to continue or we expect that there is some dip in the current quarter?

Rajiv Poddar: Basically, there we had some old contracts which were running in the earlier part of the year that is why you did not see the impact so sharply earlier, they came and we have to renegotiate the contract, which are negotiated at the current place, which led to this kind of impact, I mean the full picture is captured into the costing because the new contracts have come in place.

Siddhartha Bera: Sir, we likely to continue for some of the period?

M. S. Bajaj: Current rates are likely to stay. We do not foresee any immediate relief in the freight.

Siddhartha Bera: Got it and second is on the demand side now if you look at the capacity, we will already be touching close to the fixed capacity in the second half a quarterly run rate basis, so what is the plan for next year, I mean given the current capacity I think the next year growth will be at probably low single digits with full capacity so any plans on the capacity side, how you are looking to expand from here on going ahead?

Rajiv Poddar: It is on the drawing board, the whole team is working on the drawing board. As soon as we have something more specific we will come to the board and once the board approves we will announce it, but we are on the drawing board phase of for future expansion.

Siddhartha Bera: But generally by the time you plan it, how long will it take for the capacity to come on stream?

Rajiv Poddar: Between 18 and 24 months.

Siddhartha Bera: 18 to 25 months, okay, the last question is on the working capital side, we have seen a very sharp run this year specifically on the inventory and all, so the next year, how do you expect this, should we expect a similar level of working capital or you believe that it may come down?

Rajiv Poddar: Basically working capital will remain at these levels, see there are three reasons which has contributed to that, one is the overall turnover of the company has grown, number two the lead times have ground because the higher shipping periods and availability, so that realization of the money is going to take that period and thirdly the raw material cost has also gone up, which is leading to higher purchase price, so all the three combinations coming together has had an impact on the working capital, which we do not see a major relief and that, so we expect it be at these levels.

Siddhartha Bera: Okay, got it. I will come back in the queue for more questions.

Moderator: Thank you. We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Sir, can you talk about the price increase has taken in fourth quarter and in Q1 so far?

Rajiv Poddar: Fourth quarter we had taken price increase towards the end of February or beginning of March and that was to the tune of 2% to 3% and we are planning to take another price increase in June to the extent of 3% to 4%.

Jinesh Gandhi: Sir, in that context, what has made to this 7% QqQ increase in blended realization in the forth quarter?

Rajiv Poddar: Basically whatever price increase we have taken in Q3, the full impact of that will come in Q4.

Jinesh Gandhi: Okay and the carbon black sales for Forth quarter and FY2022, less than 3%?

M.S. Bajaj: Less than 3%.

Jinesh Gandhi: So, for the fourth quarter and today?

M.S. Bajaj: Yes.

Jinesh Gandhi: Lastly with respect to the underlying demand environment in case of slashing of interest rates and money supply ease out and commodity prices cool off, do you expect the demand also to moderate from where we are or in our product or there is no much correlation?

Rajiv Poddar: At this stage we see a good demand and what we are getting and what we are hearing is that it should remain strong for the near future so we would like to maintain that.

Jinesh Gandhi: Thanks and fall back in queue.

Moderator: Thank you. We have the next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir, firstly on the financial numbers, if you can highlight what was the quarter four cost of key raw materials natural rubber, synthetic rubber and the others?

M.S. Bajaj: Natural rubber was around Rs.150 a kg, carbon was around Rs.98 to Rs.100 a kg, and fabric approximately Rs.375 a kg.

Ronak Sarda: Now carbon black consumption is largely from the captive usage or still buying from outside?

Rajiv Poddar: No, 100% from captive usage.

Ronak Sarda: Okay, great, so just followup here, I think the domestic tire manufacturers other than yourselves, the raw material for natural rubber, the natural rubber prices have already increased up to 180 and beyond can explain what is helping us in this scenario?

M.S. Bajaj: Currently, natural rubber prices are around 165 to 170, 172 levels, earlier it was 180 also is that what you are telling, now in last 10 to 15 days it is much low and we are hopeful that now it should continue on the current levels for the next couple of months.

Ronak Sarda: That is understandable, but for us you think 150 was the average?

M.S. Bajaj: The prices, is including custom duty, etc., our price because majority is export, so our price per kg will be always lesser.

Ronak Sarda: Got it, second more your thoughts on the treasury management for the last three years we have seen cash balance is increasing and even short-term borrowings being at a very elevated level, in this year we have seen now long-term borrowing is coming, we are overall in a net debt position so how do you see this both gross debt and a high amount of cash, what is the thought process there?

Rajiv Poddar: Ultimately, we will use the money for capex, so that it what the plan is.

Ronak Sarda: Right, but I mean we are already on almost 98 Crores of cash, I do not think that the large capex plan coming through?

Rajiv Poddar: If you see the debt cost is about 0.5%, so it is within the things so you know having the treasury and having the debt is not, there is a certain arbitrage.

Ronak Sarda: Debt cost continues to remain at such a low level right now?

Rajiv Poddar: Yes.

Ronak Sarda: Sure and finally a follow up on the inventory side, we understand the increase in the cost, but if we calculate on number of days it has gone beyond 75 days in the current year, which has largely been below in that 50 days range, so what would explain that given we are in short on capacity or is this just a one of item here in this?

Rajiv Poddar: No, we will see the availability of raw materials has an impact so we have to procure and keep, secondly availability on outward shipment is also an issue, so that is also adding, so it is a combination of both these things, which have added to these things, so as it cools off and availability of containers eases out and all you will see this come back again to those levels, but till then it will sustain at these levels.

Ronak Sarda: Got it. Thank you.

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

Ankit Kanodia: Thank you for taking my question. My first question is regarding the difference if I compare the FY2021 number and FY2022 numbers, so in volume terms what we see is that a year our share from India market was around 22% to 23%, which has come down to 17% and correspondingly we have seen a rise in the share of Europe, so is it a mix of Europe doing well and in India you are seeing demand or what is the scenario, can you throw some light?

Rajiv Poddar: There were two issues, which have impacted this, one there was a very strong demand from Europe in export market and secondly, in the first half of this year COVID impact in India with certain shut downs and other issues, which have impacted so there is nothing else which has impacted this.

Ankit Kanodia: So, the demand remains strongly even in India and how are we played in terms of our distribution reach may be in the coming year compared to last year?

Rajiv Poddar: We have a pan India distribution network.

Ankit Kanodia: One last question was regarding in one of your focus area you mention in your presentation will penetrate America, but when we see the volume share it remains almost at the same level what it was in the last year, so what are we actually doing and what are the plans for the coming year in the future to increase that share?

Rajiv Poddar: If you see the actual numbers of dispatcher and percentage, the percentage remain same, but if you are talking of higher percentage for higher number know, if you see the growth in America, has been substantial in the last two years, but percentage wise it remain same because our base also grown, so what bases you are comparing 250 your sales were 280 to 290, so that base 17% if you see the actual number it is grown, in tonnage term there is a substantial increase.

Ankit Kanodia: Right and anything else I mean any particular strategy, which you are following there in America, if you would like to throw some light on that, what we are doing?

Rajiv Poddar: Following this what strategy, we have put in place a couple of years back we are seeing the benefit of that and we would like to continue with the same strategy.

Ankit Kanodia: Thank you so much.

Moderator: Thank you. We have the next question from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Thanks for the opportunity. Sir, I just wanted to get some more understanding on the non-commodity cost inflation, you talked about freight costs and also power costs, so power costs has gone up for you a because of the increase in power tariffs or is it because there have been power shut downs and you having to use more backup and diesel genset?

Rajiv Poddar: So, it is a combination of all the things, so the power tariff have also gone up and where we have our own power plants and all, there the cost of coal and gas has also gone up and wherein certain cases power cut outs as well from the government, so we have to run our DG sets, which led to a higher cost.

Amyn Pirani: Sir, going forward given that in this quarter that the coal situation has become tougher at least that is what we hear, are you facing more un-plans like, that is impact production is what I am trying to understand?

Rajiv Poddar: No, we have a full backup in fact as I said in my opening speech that the new power plant in Bhuj should also be operational in the next two to three months, which will have an additional benefit of availability to us for our goods production, so that should ease of some of the cost of the power for us over there.

Amyn Pirani: So, availability should improve, but the coal price and coal availability will continue to be a problem, as it is for everyone, is that a fair thing to say?

Rajiv Poddar: Absolutely, you are fair.

Amyn Pirani: Thanks a lot.

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

Abhishek Jain: Thanks for the opportunity, Sir. manufacturing cost was expected to increase entirely because of the high energy and RM cost, how do you see opportunity in terms of increase in realization of your products?

Rajiv Poddar: So we are working on that and that is why we have not been able to pass on this kind of price increase and also we are continuing to pass on the price increase because it is the increase for everybody and more so for the players in the western part of the world.

Abhishek Jain: Sir, because this ongoing wars Ukraine and Russia, you have shutdown their plant in the Ukraine and Russia, so do you see the benefits of it in your business?

Rajiv Poddar: I think that benefit was I mean the demand for BKT branded product was anyway strong and continuing to grow, so that was continuing without the thing also, so I do not think there is any impact in that sense on the demand per se because the war, but overall the demand has been strong anyway, so it is not because the war that this is created, so even post the war we see the demand to remain strong.

Abhishek Jain: I am talking about the benefit in the realization because we have seen a sharp increase in the realization, so most probably it is because of the parking freight cost, but also you have taken the price hike in this quarter?

Rajiv Poddar: Yes, because we have been able to pass it onto the enduser, the cost which has been passed on is even though the realization has increased because you are passing on the impact of the cost and that has always been the case, it is not a matter of demand or supply.

Abhishek Jain: So, what is the gap between your price and the competitor price right now?

Rajiv Poddar: 12% to 15% from tier 1.

Abhishek Jain: So, there is no plan for the increase the prices in the coming months for you?

Rajiv Poddar: I mean that should remain at these levels, so that will continue.

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

Moderator: Thank you. We have the next question from the line of Vimal Goel from Union AMC. Please go ahead.

Vimal Goel: Sir, thank you for the opportunity. Sir, just a long-term industry question and what is the relevance of BKT is, we have seen a strong demand environment for quite some time now, I think the last downtrend that we saw was in that climatic conditions that we saw in Europe, post that the industry has held in the past, so do you think there are some structural changes that have happened in the industry so that the growth has happened or is it that Balkrishna has continued to take market share and going forward the inherent cyclicality of this industry will continue, but Balkrishna will continue that?

Rajiv Poddar: It is a mix of both, there has been some demand as well and also the growth of BKT brand, the marketing in the brand building equity exercise that we were doing now paying off and that is why we are able to create a stronger demand for the BKT branded product, which has resulted in the Balkrishna growing at a quicker phase in the market that means we are taking market share.

Vimal Goel: But, do you believe that this industry will continue to remain typical in nature?

Rajiv Poddar: Yes.

Vimal Goel: Got it. Sir, secondly on your margin outlook, the demand given the fact that other costs remain volatile, do you want to comment on the margin outlook going forward in the context of the current cost environment?

Rajiv Poddar: So, we have always maintained and I always said that our endeavour will be to maintain an EBITDA of 28% to 30% on long-term sustainable basis, do not look at it quarter-on-quarter or each quarter by quarter because that can separate based on a variable cost, I were ever endeavor is to maintain an EBITDA a margin of 28% to 30%, which will be on a long-term sustainable basis that is always said and we held that older statement even today on a long-term basis.

Vimal Goel: Right, Sir, last question would be the increase in inventory that we are seeing some of the contribution would also have come from your carbon black would that be correct?

Rajiv Poddar: No, this is basically for other raw materials and shipping costs, you know because of availability of container we have to plan and to keeps hold, it is not a matter of carbon black, it is a overall for the tire business.

Vimal Goel: Right, so you do not have any inventory that has been kept in the carbon black branches?

Rajiv Poddar: No, there is a nominal inventory, because that is all mainly local, so there is not a program of shipping availability over there, so from a raw material perspective of the carbon black as the outward supply to the customers, so that is not an issue.

Vimal Goel: Got it, Sir. Fair enough, Sir. Thank you so much and all the very best for FY2023.

Moderator: Thank you. We have the next question from the line of Arvind Sharma from Citibank. Please go ahead.

Arvind Sharma: Good morning, Sir. My first question is on the capacity build up, if you could just enumerate how to build on the current capacity, I think 285 for the last year since the Waluj I plant is expected to provide around 25000 that is not coming I believe so how enclose playing the capacity buildup from here on?

Rajiv Poddar: So, basically Waluj, what we were trying to build up we are continuing, we are not stopping to refurbish it, so the old plant will continue and that is already being producing tire so that will continue to produce, our endeavour is with all the projects that we have taken this year we will see at between 320 and 330 metric ton and eventually by the end of it, we will be at 360000 ton for the following financial year.

Arvind Sharma: That 360 include the 25000 metric tons that you are planning to us?

Rajiv Poddar: Yes, that is already running, so we are not stopping the plant which is running that is why the production capacity will continue already in the system.

Arvind Sharma: My question was increment of 25000 ton so right now your capacity 285 plus 55 that is right now?

Rajiv Poddar: Yes, it is 285 plus 50, you know the 50 is being ramped up, which will come in towards the full production will be coming towards the end of the second half of this year I mean the end of this year, so in the second half you will see the benefit of that 50000 come in and the 25, which is from Waluj will continue, so we are not stopping that because there is a strong demand, we are not stopping that, so that is all already in the system, which will continue, so earlier we are trying to stop that, republish it and then restart it, but now we are not stopping it so that 25 will always, it is already in the system and will continue.

Arvind Sharma: Fine, thanks a lot, Sir. Sir, second question, I missed gross and net debt position for FY2022 end and the balance sheet has now turned out to be net debt you know Balkrishna used to be net cash company, any targets that you have going forward in terms of balance sheet health, possibly in terms of debt and cash?

Rajiv Poddar: So, basically I read in my opening statement, our gross debt stood at Rs.2443 Crores at the end of March 31, 2022, of which Rs.1942 Crores is relating to working capital debt and 500 Crores is the long term towards the project and our cash and cash equivalent is Rs.1932 Crores.

Arvind Sharma: So, that 1942 Crores is likely to draw down by this way?

Rajiv Poddar: Yes.

Arvind Sharma: Thanks, Sir and that is all from my end. Thank you so much.

Moderator: Thank you. We have the next question from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Good morning Rajiv and team. My question was on the increase in the freight cost, so you mention that these are coming on the lag effects and we were having negotiations of new contracts, so just a question on that, do we have volume visibility in these contracts, we do not be exposed risk to this cost, lower volumes and higher freight cost going forward if the customer reduces the volume off take?

Rajiv Poddar: No, there is no volume linked bonus or anything linked to the costing contracts, it is a very simple contract, this is valid for this duration it is not related that you will get some extra bonus or extra discount if you reach a certain milestone number.

Lokesh Manik: No, you can reduce the volume of uptake would that impact us would the cost will go down disproportionately?

Rajiv Poddar: It is based on per container basis so whatever I explained it is per container basis that is what will be charged.

Lokesh Manik: Understood, second was on the energy crisis in Europe, so have you seen your competition base issues with production planning and maybe some volume would have been diverted to us through market share gain, are you seeing that benefit is coming in?

Rajiv Poddar: No, we are not able to comment on our competitor's status.

Lokesh Manik: Fair enough. That is it from my side.

Moderator: Thank you. We have the next question from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Thank you. I have two questions, one is on the hedges that you have for the euro for FY2023, could you tell us what percent of your FY2023 expected Euro revenues are hedged and at what rate?

Rajiv Poddar: So, full year expect average realization of 85.

Joseph George: 85 and all of it is hedged at this point, FY2023?

Rajiv Poddar: Almost we are hedging, also 85 for the full year.

Joseph George: What was the similar you know the realization for the full year FY2022?

Rajiv Poddar: FY2022 was 87.3.

Joseph George: Understood and Sir, the second question was in relation to your margin guidance you mentioned that your medium to long-term margin guidance 28% to 30%, but when you look at FY2023 given inflation, given higher operating expenses, etc., do you see you will be able to bucket yourself in that range or that would be plus?

Rajiv Poddar: That is our endeavour to be in that range, we are working toward that, but because of the volatile conditions outside of the cost, variable cost moment so volatile at the moment is difficult to comment for short-term, but long-term definitely our endeavour is to be there in that bracket.

Joseph George: Okay, so in other words compared to the margins what we have seen in Q3 and Q4, which is around 24% to 25% pressures or do you think the worst in terms of margin is captured in what we have seen in the last couple of quarters?

Rajiv Poddar: It is difficult to say because there is so much of volatility on the variable cost, but you can see you have always been trying to pass on as much as we can and we are working toward the next price increase already planned for June, so that is what in our control and we are trying to do that so quite hopeful that we work toward our goal of 28% to 30%.

Joseph George: Got it, Sir. Thank you.

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

Sonal Gupta: Good morning and thanks for taking my question. Sir, coming back to the logistics cost, so if I look at your Q3 commentary, you had said that costs were higher than what we passed on, but it is coming down and therefore we have not taken any further increases in Q4 and now you are saying that the freight cost has jumped by almost like 400 basis points Q-o-Quarter, so just trying to understand I mean what changed really speaking?

Rajiv Poddar: So, that was the visibility we had to do during the call and after that the contracts which are getting over we were negotiating and those did not come on in place, so the freight costs went up after the call and that is we have to take a call for price increase or just after the call also we took a price increase in February-March and now we are taking another one, so it was a reaction on the cost that went up?

Sonal Gupta: What is the price increase call in February-March in Q4 that you have taken?

Rajiv Poddar: 2% to 3%.

Sonal Gupta: 2% to 3% and this is largely like freight surcharge sort of a thing of this like overall price increase?

Rajiv Poddar: Overall price increase.

Sonal Gupta: Okay and also on the power costs like you mentioned you have a new power plant coming up in Bhuj in three months, could you just talk about how much of your capacity will become I mean how much will be captive the northern source and what sort of savings you will get?

Rajiv Poddar: So, Bhuj will be fully captive through our power plant, we will be receiving at our own, the other plants will be depending on the grid so that is how it will be working.

Sonal Gupta: What is the size of this, now many megawatts for this?

Rajiv Poddar: 20 megawatt, so 20megawatt is already there and the new one will be additional 20 megawatt.

Sonal Gupta: Okay and this coal based or what is it?

Rajiv Poddar: Yes, coal based.

Sonal Gupta: And just last question was on Russia, I mean would you have a sense of what percentage of like the European agri market production of tires comes from Russia?

Rajiv Poddar: No, we do not have that number.

Sonal Gupta: Sure, thank you so much.

Moderator: Thank you. We have the next question from the line of Trilok form Dymon Asia. Please go ahead.

Trilok: Good afternoon, Sir. I just wanted to obviously hear your thoughts particularly with regards to the demand because that accusation is there across the country, but cycle has been a bit longer compared to last cycle, so have you seen any impact on demand like our segment or do you think despite so much higher prices the demand continues to grow and stable that is point one and probably can answer that, I can go to the next question?

Rajiv Poddar: So at the moment we see the demand to continue to remain strong, we hope it continues and we are quite confident that it will continue to remain strong.

Trilok: So, so far what you are trying to say is all the price that you are trying to pass on you is completely absorbed and there is no visibility of any kind of volume moderating or stagnating?

Rajiv Poddar: No.

Trilok: And when you alluded to the differential of March, the price increase even competitors is between 12% to 15% even now, do you see that your gap narrowing or you know do you think it can farther because you guys are operating at a margins which is still in a much better than what we are doing?

Rajiv Poddar: So, we will continue to keep the gap of 12% that will be 12% to 15%, we will continue to keep that gap.

Trilok: And then this just to reconfirm the capacity that you have expanded will start from October is that fair assumption to make?

Rajiv Poddar: Towards the end of first half of this financial year and it will slowly ramp up and you will see the impact coming towards the second half of the financial year.

Trilok: And how long it will take for the full ramp up of the capacity?

Rajiv Poddar: Three to six months.

Trilok: Understood, thank you.

Moderator: Thank you. We have the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. Sir, my first question is on Europe side, so given the recent crisis that the part of the world is going through are there any production disruptions that you have come across from ground level, which can create an opportunity either in terms of pricing or higher volume side, is there anything of that coming across?

Rajiv Poddar: No, not at this moment, we have not come across anything.

Chirag Shah: Sir, second question is just a followup on the earlier one, on this capacity ramp up, you are saying that the new plant capacity will start going from H2 onwards right or it will start going from current quarter itself and full ramp up will be in H2?

Rajiv Poddar: You are absolutely correct, it will come from this quarter and full ramp up will be towards the middle of next quarter.

Chirag Shah: Sir, just a clarification, price hike that you indicated, is it possible to indicate over last 12 months, what is the kind of price hikes that you would have taken and also your peers, so have you maintained that 10% to 15% at your pricing?

Rajiv Poddar: No, I do not have the whole year's data in front of me at this stage.

Chirag Shah: But broadly would it be around 10% to 12% or more or it would be on the lower end?

Rajiv Poddar: Roughly we would have done about 15% to 16% for the whole year.

Chirag Shah: And I presume your peers would have been slightly higher to maintain the price that you need?

Rajiv Poddar: The price gap is worsened and is continuing to remain same and I am assuming they have done similar price increases.

Chirag Shah: Thank you very much and all the best.

Moderator: Thank you. We have the next question from the line of Maitri Parikh from PI Square Investments. Please go ahead.

Maitri Parikh: I wanted to ask about the carbon black prices that what is the difference between our captive cost that we have and we have from market, so how much is the additional profit that we are making on that?

Rajiv Poddar: So, it is approximately 8% to 10%.

Maitri Parikh: Okay, so that is the benefit that we are having right now of the carbon black and one more question, what will be our market share currently?

Rajiv Poddar: Less than 3% of our total turnover for carbon you are asking?

Maitri Parikh: No, for our overall 2.5 tons?

Rajiv Poddar: Sorry, can you repeat your question?

Maitri Parikh: Our market share in India domestic, not for the carbon black, but for our product?

Rajiv Poddar: So, for the tire product our market share would be about 4% to 5% in India or replacement market in our off highway tire business for the product that we make.

Maitri Parikh: Thank you.

Moderator: Thank you. We have the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Thank you very much. Sir, my point is when we have so much debt and capex plan ahead why you are paying so much handsome dividend and why not keep the money for further expansion?

Rajiv Poddar: That is I think the prerogative of the board and I think they had taken a foray to give this, but even after this our reserves and everything are comfortable, so I think they have decided the borders taken a call to give the end of dividend, but also this year we had a special dividend to celebrate our 60 years, so that may not continue for the years to come.

Ravi Naredi: Thank you.

Moderator: Thank you. We have the next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Employee cost has declined quarter-on-quarter from 97 Crores to 90 Crores so any reason behind that?

Rajiv Poddar: Yes, so basically in the preceding year we were giving some additional incentives during COVID periods, which have now lapsed, so that is where the impact of that has come down.

Ashutosh Tiwari: So, now it is sustained or may be there will be increase in next year, but this has normalized the employee cost fourth quarter?

Rajiv Poddar: Yes, absolutely correct.

Ashutosh Tiwari: Sir, obviously our short-term debt cost has been lower because of freight and euro and all, but the rising yield will there be an increase over there in terms of debt cost percentage?

Rajiv Poddar: Very marginal.

Ashish Tiwari: Lastly on this headway you mention 85 is the headway forward hedge right now, but I assume that that will be covering only 50% of our sales like what we have mentioned earlier or is it 85 is the full year right now?

Rajiv Poddar: Yes, we are expecting for the full year because we have already covered, we have covered substantial amount and at these levels overall average would be at this level only.

Ashish Tiwari: Got it. Thank you and that is all from my side.

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

Siddhartha Bera: Thanks for the followup, Sir, just a clarification on the capex side you said that the 900 Crores is the project capex for this year, what will be the maintenance capex?

Rajiv Poddar: It is lying which we would normally maintain about 200 Crores so that will continue.

Siddhartha Bera: So, total will be about 1100 Crores for the year, right?

Rajiv Poddar: Absolutely correct, broadly 900 Crores is for our project cost and 200 Crores is maintenance cost.

Siddhartha Bera: Got it and Sir, second question is on the commodity cost per ton side for the current quarter what will be the increase you are looking at on the per ton basis?

Rajiv Poddar: What is your question?

Siddhartha Bera: On the commodity basket overall per ton basis what will be the cost inflation you are looking at for the current quarter?

M.S. Bajaj: Maybe around 3% percent we are expecting, 3% to 4% increased cost.

Siddhartha Bera: Got it, 3% to 4% cost and we have taken about similar number?

M.S. Bajaj: Yes, correct absolutely.

Siddhartha Bera: Got it. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Suraj Fatehchandani from Compound Everyday Capital. Please go ahead.

Suraj Fatehchandani: Sir, I had two questions, the first one is, what is our total carbon black capacity?

Rajiv Poddar: So, our total carbon black capacity is 140000 metric ton.

Suraj Fatehchandani: And how much of that are we incurred right now percentage level?

Rajiv Poddar: That is the nameplate, achievable will be 115000.

Suraj Fatehchandani: 115000, and how much of that have we manufacturing right now in percentage term?

Rajiv Poddar: How much of that are we manufacturing to a full capacity?

Suraj Fatehchandani: Yes, how much of that is required as per current sales?

M.S. Bajaj: More than 95%.

Rajiv Poddar: Practically we are selling about 20% of our production to the third party, rest we are using in-house that is 100% of our the requirement is coming in-house, which equates to 80% of this capacity.

Suraj Fatehchandani: Got it and secondly, a broad number on how has our revenues or our CAGR growth been better than industry, so any number on that industry CAGR growth versus our CAGR growth?

Rajiv Poddar: It is by and large in line, we have a couple of points over.

Suraj Fatehchandani: Got it. Thank you.

Moderator: Thank you. That was the last question, I now hand it over to the management for the closing comments.

Rajiv Poddar: Thank you to everybody for coming on this call. We look forward to seeing you in the next quarter. Thank you.

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