

Operator

Ladies and gentlemen, good day and welcome to the Q1 FY13 Results Conference Call of Balkrishna Industries hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference, all participants' line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Niket Shah, Midcap Analyst at Edelweiss. Thank you, and over to you, sir.

Niket Shah

Thanks Lavina. Good afternoon everyone. On behalf of Edelweiss, I would like to welcome you all on the Balkrishna Industries Q1 FY13 earnings concall.

With us from the management we have Mr. B.K. Bansal, Director Finance, Balkrishna Industries. We will first start with the opening remarks from the management and later on move on to the question-and-answer session. I would like to hand over the phone to Mr. B.K. Bansal. Over to you sir.

B.K. Bansal, Director, Finance

Yeah, thank you Niket. Good afternoon everybody. I welcome all of you to the post result conference call on our first quarter results for financial year '13. I am joined by Mr. Sameer Shah of SGA, our Investor Relations Adviser.

To begin with for our standalone tire business we have achieved sales of Rs.830 crore during the quarter as against Rs.557 crore during corresponding quarter of previous year registering a growth of 49%. The EBITDA for the current quarter at Rs.156 crore is around 18.9% of sales and the net profit at Rs.73 crore is around 8.8% of sales.

The volume for the current quarter is 37,000 metric tonnes compared to 28,709 metric tonnes in the corresponding period of previous year. Now, as you know that there has been some impact in the demand scenario in USA due to drought like situation prevailing in many parts of the country, in our case the impact is somewhat diluted due to large share of replacement market sales in USA.

Some demand slowdown is also being witnessed in Europe due to economic situation prevailing over there. This has resulted in lower order intake in the last quarter. We are increasing our market share in existing geographies and at the same time penetrating newer markets. We are also focusing on CIS, Russia and India which will going forward become large markets due to huge infrastructure spend.

On raw material front we are currently maintaining inventory of around two to three months by way of physical stock as well as through forward contracts with suppliers. The raw material prices have remained fairly stable over the past two quarters.

Now, I'll throw some light on the ongoing CapEx at Bhuj. Civil and infrastructure work at our Bhuj capacity is in full swing and the production of tires is expected to commence from this facility from September 2012. Out of the total estimated project cost of Rs.1,800 crores we have incurred Rs.895 crores till 30th June 2012. The ECB of USD100 billion has been tied up and the disbursement is likely to happen in the current quarter.

As informed earlier post commissioning of tyre manufacturing facility at the Bhuj plant the total production capacity of the company will reach to 2,076,000 metrics tonnes per annum.

The ramp up of the capacity will take place in the phase manner with the company reaching the full capacity utilization in FY 2015.

As on date, we have an order book 51,000 metric tonnes worth Rs.1,150 crore which is equivalent to our four months of sale. This is all from my side. I now open the floor for questions.

Questions And Answers**Operator**

Thank you sir. Participants we will begin the question-and-answer session. [Operator Instructions]. Our first question from the line of Mr. Balkrishna from Prakash Kapadia. Please go ahead.

Analyst

Yeah, thanks for the opportunity. Congrats and good set of numbers.

B.K. Bansal, Director, Finance

Thank you.

Analyst

Sir if could give some sense in to pricing, has there been some pricing change during the last three to four months.

B.K. Bansal, Director, Finance

No, nothing.

Analyst

No price change. And if you could give some sense on raw materials we were expecting raw material prices to be soft and it's played out that way. So now are we building inventory on the rubber side and also if you could share some insides on crude based raw materials what is happening in terms of carbon black and nylon?

B.K. Bansal, Director, Finance

Yeah. See raw material prices have soften from its peak. And if you see in the previous quarter that is quarter ending March 31st, the overall raw material cost per kg for the company was Rs.135 which has come down to Rs.126.

Analyst

Right.

B.K. Bansal, Director, Finance

So the reduction is already visible in the numbers.

Analyst

Right.

B.K. Bansal, Director, Finance

Now as far as inventory is concerned, we are still maintaining inventory of around two to three months because our sense is that the prices can soften further.

Analyst

Okay.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay. And sir anything on carbon black and nylon any trends we are seeing there?

B.K. Bansal, Director, Finance

No, it is stable. There is no too much of changes in their prices.

Analyst

Okay. And sir given that the current order book is slightly lower than what we've seen over the last few quarters.

B.K. Bansal, Director, Finance

Right.

Analyst

Is that now getting into some worrisome mode or we are continuously negotiating and the sales finance is on. So if you could share some light on that?

B.K. Bansal, Director, Finance

See basically the order book has come down because of two things. One is our run rate has increased, earlier we used to produce around 10,000 to 11,000 metric tonnes per month, now we are producing around 13,000 to 13,500 metric tonnes per month. And yes, there is some contraction in the demand flow order flow and which is basically due to cautionary situation prevailing in the market because everyone is concerned and worried. So they have just started reducing the inventory level like we have also done in our case, we have also reduced our inventory level from four months, five months, six months to two to three months level.

Analyst

Right. And sir last thing once the plant of Bhuj starts from September we would see interest and depreciation cost being expense from Q3 onwards?

B.K. Bansal, Director, Finance

Yes definitely it will come to P&L.

Analyst

That should happen in Q3?

B.K. Bansal, Director, Finance

Yeah, yeah.

Analyst

Okay sir. Thanks, all the best.

B.K. Bansal, Director, Finance

Thank you.

Operator

Thank you. Our next question from the line of Mr. Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari

Yeah hello sir. I mean European market the maximum order books slide is happened in Europe or in the U.S. is I mean America market?

B.K. Bansal, Director, Finance

I would say it is from both the markets.

Ashutosh Tiwari

Yeah.

B.K. Bansal, Director, Finance

And largely in the Europe market.

Ashutosh Tiwari

Okay. And sir just going through the release of Titan in U.S. and basically Michelin in Europe. Titan is saying that may be in the second half CY12 basically there could be a Y-o-Y decline in the agriculture tyre demand, so how is the things looking over there in U.S. market particularly?

B.K. Bansal, Director, Finance

Yeah, obviously when there is a drought kind of situation, so the first impression we get is that there could be a drop in the demand. But as you know in our case our business model is largely skew towards replacement market. So, the impact should be minimal on us.

Ashutosh Tiwari

Okay. And Europe market sir how is the demand shaping up, is it very weak from last year?

B.K. Bansal, Director, Finance

No, not very weak, again I'd say it's stable it's only because the people have started reducing the inventory level, that is why some reduction is there in the order flow.

Ashutosh Tiwari

Okay. So do you think that order book will remain around the current levels or...

B.K. Bansal, Director, Finance

Yeah, yeah definitely. I think it should be maintained because in the normal circumstances also we generally carry even order book of three months.

Ashutosh Tiwari

Okay, okay. So, you are still sticking to the full year guidance of 160 to 165.

B.K. Bansal, Director, Finance

Yes, yes very much, very much.

Ashutosh Tiwari

And sir is there a possibility that if agriculture is not doing that well globally, the market is not that good. So, because other people are reporting that I mean the mining and the construction segment are doing very well. So, is it having that for you also the proportion of mining and construction can actually increase in this year as compared to last year levels?

B.K. Bansal, Director, Finance

Yeah definitely because that is how we are planning, in our new capacity also the mixture between the agriculture and OTR would be 55%, 45%.

Ashutosh Tiwari

Okay.

B.K. Bansal, Director, Finance

As against 70-30 in the existing plants.

Ashutosh Tiwari

Okay.

B.K. Bansal, Director, Finance

So, we also have that opportunity in mind and accordingly we are working in that direction.

Ashutosh Tiwari

Okay. And where do you command better margins, is it...

B.K. Bansal, Director, Finance

Margins are similar across, pretty similar, no significant difference.

Ashutosh Tiwari

Okay. And sir in mining segment actually which are the major customers I mean in which market is Europe only or...

B.K. Bansal, Director, Finance

No, it is across the geographies, Europe, America, the Middle East, all of them.

Ashutosh Tiwari

And do you also cater to Indian market for mining or...

B.K. Bansal, Director, Finance

Yes, definitely.

Ashutosh Tiwari

Okay. Okay, fine sir. That's all from side. I'll join the queue, thanks.

B.K. Bansal, Director, Finance

Yeah. Thank you.

Operator

Thank you. Our next question from the line of Mr. Jaisinh Suchak from JM Financial. Please go ahead.

Jaisinh Suchak

Good afternoon. Congratulations on the result.

B.K. Bansal, Director, Finance

Yeah, good afternoon.

Jaisinh Suchak

Just want to ask you CapEx you said 895 crores is already done till 30th June and so I am seeing FY13 and FY14 what sort of like, what sort of number are we looking in terms of balancing?

B.K. Bansal, Director, Finance

In FY13 we are looking at another expenditure of around Rs.500 crore and the balance would be incurred in FY14.

Jaisinh Suchak

Okay. The other expense which have gone up this year we said the three reasons were obviously the ForEx M-to-M, the freight and forwarding and the selling and marketing expenses.

B.K. Bansal, Director, Finance

Correct.

Jaisinh Suchak

So in terms of the selling and marketing and the freight forwarding, is it like a one time thing or is it a consistent hike that this is the...

Arvind Poddar, Chairman and Managing Director

See basically other expenditure includes all type of other expenditure and most of them are variable in nature. So which increases in proportion to increase in the sales like freight and forwarding, some job charges, stores and spares et cetera, et cetera. And then there is a exchange loss of around Rs.17 crores on the sales and purchase related transactions.

So that is something you can call a one time rate, but all other elements are regular in nature.

Jaisinh Suchak

Sure. The debottlenecking capacity of 12,000 metric tonne expected to be in this year, any idea like when we'll be operational the...

Arvind Poddar, Chairman and Managing Director

Part of it has already been operationalized and the balance would be operationalized in the next three to four months time.

Jaisinh Suchak

Okay. You said price hike there has been no price change for the last quarter or so, but anything going forward like are we looking at with raw material prices like this...

B.K. Bansal, Director, Finance

Yeah, in the current scenario when raw material prices are already on the declining trend I don't see any possibility of price increase.

Jaisinh Suchak

Great sir. Thank you so much. All the best.

Operator

Thank you. Our next question from the line Mr. Kaushal Shah from Dhan key Securities. Please go ahead.

Kaushal Shah

Yeah, Thank you sir and congratulations on the numbers.

B.K. Bansal, Director, Finance

Yeah, thank you.

Kaushal Shah

I have two questions. One is given the macro scenario in Europe and in U.S. what is your view on the capital expenditure in '13-14 the next year. Are you continuing with an enhanced CapEx cycle? And the second question is in terms of demand profile in India domestically are you seeing any sort of pick up in demand in terms of the various segments?

B.K. Bansal, Director, Finance

See as far as CapEx is concerned definitely we are going ahead with that and we are confident to maintain the guidance which we had given earlier. The current scenario in the Europe and USA I think it is prevailing for last four years and in last four years we have continuously grown.

There can be some temporarily impact on the order flow but again as I told earlier that we are heavy on the replacement side. So, the impact of any such thing on our company would be very minimal. And as far as India is concerned definitely India is one of our target market, currently we are selling around 7% to 8% and going forward our focus would be mainly on the OTR side in the India market.

So, that will definitely increase to around 14% to 15%.

Kaushal Shah

Okay. Thank you sir.

B.K. Bansal, Director, Finance

Yeah.

Operator

Our next question from the line of Mr. Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani

Hello.

B.K. Bansal, Director, Finance

Yeah.

Riken Gopani

Yes sir, congratulations for a good set of numbers.

B.K. Bansal, Director, Finance

Yeah thank you.

Riken Gopani

Sir firstly would like to understand more on the realisation front, on a sequential basis there is almost 5% improvement in realisation in a scenario where rubber has almost collected more than 20%.

B.K. Bansal, Director, Finance

Correct.

Riken Gopani

Your thoughts on what has lead to this improvement?

B.K. Bansal, Director, Finance

This is basically because of the better currency realisation.

Riken Gopani

Okay. But would we had earlier shared that we have hedged most of our revenues for this year right?

B.K. Bansal, Director, Finance

Yeah.

Riken Gopani

So would that I mean I am just trying to understand how come then we had a gain

B.K. Bansal, Director, Finance

See whenever we talk to you, we give you the average rate for the whole year, okay, and then as the forward contracts are utilised the actual rate comes into book of account. So, accordingly the level of realisations are arrived at.

So, there is no change in what we had told you earlier about the ForEx hedging that continues to remain the same.

Riken Gopani

Okay. So, you use the basically the quarter end for realisation that you book in the top line is it?

B.K. Bansal, Director, Finance

No, no quarter end. Whatever it happens on daily basis.

Riken Gopani

Okay, okay.

B.K. Bansal, Director, Finance

We book forward contracts and whenever there is a flow those are crystallized against our adjusting forward contracts.

So, suppose if I have a forward contract of any x amount and which falls due in a quarter. So, that would be my realisation for the quarter.

Riken Gopani

Okay, okay.

B.K. Bansal, Director, Finance

Yeah.

Riken Gopani

Okay. So, could you tell me what would your average be vis-à-vis Q4 and this quarter in terms of realisation for dollar?

B.K. Bansal, Director, Finance

I do not have this information readily available with me. You can take it from me offline.

Riken Gopani

I will take it offline. Second If you could share what was the rubber average cost this quarter?

B.K. Bansal, Director, Finance

Around \$3,500.

Riken Gopani

Okay. So this has remain static on Q-on-Q basis.

B.K. Bansal, Director, Finance

Yeah, that is what I also said in my opening remarks.

Riken Gopani

Okay. Okay. So the inventory is still to run down is it for you to or will this remain like this for the rest of the year?

B.K. Bansal, Director, Finance

Yeah, this is the minimum inventory level which we always maintain.

Riken Gopani

No, what I meant is the rubber cost should is there further scope to go down below \$3500 or...

B.K. Bansal, Director, Finance

Yes, it may come down to 3,200 level.

Riken Gopani

It may come down to 3,200 levels. Okay, and sir lastly if I look at the geographical volume break up that you have given is there significant growth that you have now seen even in the rest of the world segment and if you could elaborate what's the reason for that?

B.K. Bansal, Director, Finance

No, I think there is no significant change because always our Europe and America both put together contribute around 70% and 30% comes from the rest of the world and the same scenario is there.

Riken Gopani

Okay, okay. Because in volume terms it looks like 60% volume growth, there is no specific new geography or any other reason why this could have happened according to you...

B.K. Bansal, Director, Finance

Where there is 60% volume growth?

Riken Gopani

On a Y-o-Y basis in ROW which you report.

B.K. Bansal, Director, Finance

Okay, okay. No, but our overall basis I think percentage are more or less similar.

Riken Gopani

Okay, okay. I'll check it offline. Thanks, that's it.

Operator

Thank you. Our next question from the line of Mr. Ravi Shenoy from Motilal Oswal. Please go ahead.

Ravi Shenoy

Good afternoon Mr. Bansal.

B.K. Bansal, Director, Finance

Yeah, good afternoon.

Ravi Shenoy

Pretty good numbers, sir.

B.K. Bansal, Director, Finance

B.K. Bansal, Director, Finance

Yeah, thank you. Pretty good number sir.

Yeah, thank you.

Riken Gopani

One book keeping question sir. Your first quarter numbers for last year seem to have been restated the revenue and other income. If you could explain that?

B.K. Bansal, Director, Finance

See the other operating income of Rs.16 crore includes Rs.15 crore on account of DTV benefits which was available till last year only and which is not available now. And the other income of 14 crores includes around 12 crores on account of exchange gain on sales and purchase related transactions.

Riken Gopani

Okay, which until last year both of these items we included in the sales items.

B.K. Bansal, Director, Finance

Yeah.

Riken Gopani

Okay. So for the remaining quarters also we would see such reclassification happening?

B.K. Bansal, Director, Finance

Yes, yes, yes. Because this is as per new Schedule VI requirements.

Riken Gopani

Okay. Sir it would help if you could center your PR agency the break up for the remaining quarters? As per the new classification.

B.K. Bansal, Director, Finance

Yeah, yeah. Okay.

Ravi Shenoy

My other question was on the expansion sir, the Bhuj expansion that we'll be commissioning in September.

B.K. Bansal, Director, Finance

Right.

Ravi Shenoy

What part of the CapEx would get commissioned this quarter?

B.K. Bansal, Director, Finance

Out of 1,800 crore I think around 1,000 crore would be commissioned.

Ravi Shenoy

Okay. So interest and depreciation to that extent...

B.K. Bansal, Director, Finance

To that extent yeah will now hit P&L account.

Ravi Shenoy

Okay. And in terms of capacity, what would this mean?

B.K. Bansal, Director, Finance

Around 90,000 capacity would be on the floor, but as we said the ramp up would happen over the period of two and half years. So in the first year that is the current financial year, we are expecting around 20,000 to 25,000 metric tonnes.

Ravi Shenoy

Okay. So on a proportionate half year basis.

B.K. Bansal, Director, Finance

Yeah.

Ravi Shenoy

Okay. And in terms of working capital what kind of working capital ramp up would this mean?

B.K. Bansal, Director, Finance

Working capital cycle is generally of three months. So accordingly the working capital would also increase.

Ravi Shenoy

Okay. Sir because this new CapEx is coming at a higher cost than our old plant, would it mean a lower ROC on this plant?

B.K. Bansal, Director, Finance

Yes little bit, because the old plant, all the plant and machinery were not new, most of it was second hand where as in this plant everything is new. So the ROC -- incremental ROC would be little lower than what it was in the existing plant.

Ravi Shenoy

Okay. 15%, 16% kind of a number.

B.K. Bansal, Director, Finance

Yeah yes I think it should be that much.

Ravi Shenoy

Okay. And lastly someone had raised this question sir, the other expenses there is a rise of 90 crores of which 17 crores is explained by ForEx.

B.K. Bansal, Director, Finance

Correct.

Ravi Shenoy

The remaining would be something that would be a recurring expense.

B.K. Bansal, Director, Finance

Yeah recurring and variable kind of expenditure.

Ravi Shenoy

Okay based on sales.

B.K. Bansal, Director, Finance

Yeah.

Ravi Shenoy

That's right. Thanks a lot sir, my questions are done. Thank you.

Operator

Thank you. Our next question from the line of Mr. Manoj Bahety from Edelweiss. Please go ahead.

Manoj Bahety

Good morning Bansalji.

B.K. Bansal, Director, Finance

Yeah good afternoon.

Manoj Bahety

Congratulations for good set of numbers.

B.K. Bansal, Director, Finance

Thank you, thank you.

Manoj Bahety

Bansalji my first question is I just wanted to understand as you mentioned in your opening remarks that U.S. drought situation is likely to have a lesser impact on BKT since our significant portion of the sales in replacement market.

B.K. Bansal, Director, Finance

Correct.

Manoj Bahety

So, just wanted to understand that the drought situation, how come it impact the replacement market to a lower extent vis-à-vis OEM segment?

B.K. Bansal, Director, Finance

See, whenever there is a reduction or drop in the demand it is the equipment sale which is affected first. So, the OEM segment is the one which is most affected.

Manoj Bahety

Okay.

B.K. Bansal, Director, Finance

But people continue to operate their business with the existing equipment, and for that they need to change the tyres and that is why the replacement market -- replacement demand remains intact.

Manoj Bahety

Okay. But will it not result in some slow down in the moment of existing vehicles also because if there is a drought type of situation and if there is less acreage, so won't it impact replacement market also?

B.K. Bansal, Director, Finance

Yeah, theoretically what you are saying is correct but what I understand that in USA there is a good irrigation system. So agriculture activity per-say will not come to a halt in a big way. There can be some impact so if at all there will be an impact it would be of a temporary nature.

Manoj Bahety

Okay. My second question is on our new plant where almost 30% of the capacity is for mining segment.

B.K. Bansal, Director, Finance

Correct.

Manoj Bahety

And while seeing the results of global players like Titan and all, all these guys are talking means a very bullish trend especially in the mining segment, mining and construction segment in the U.S. So just wanted to understand because for entering or for increasing any segment that getting right SKUs is I think a big entry barrier, so by that time the new plant comes in place will we be ready with SKUs for mining segment also?

B.K. Bansal, Director, Finance

Yeah, yeah definitely. And it's not that it will be totally new exposure for us. We are already there into OTR segment, we have a small capacity in our Chopanki plant as well as in Waluj plant and it is just that we are enhancing our capacity.

Manoj Bahety

Okay, okay. And sir if you can share like out of 1,900 SKUs which you may be having right now out of that how much of that may be catering for the mining segment or out of our OTR segment how much is for the mining segment will it be possible to share that details?

B.K. Bansal, Director, Finance

For OTR it would be 30% to 35%.

Manoj Bahety

Okay. Out of OTR 30% to 35% will be for mining.

B.K. Bansal, Director, Finance

No, no, no, out of total the 30% to 35% is for OTR segments and balance is for agricultural segment.

Manoj Bahety

Okay. And out of OTR how much will be for mining, that will it be...

B.K. Bansal, Director, Finance

Mining would be around 9% to 10%.

Manoj Bahety

9% to 10%. And that with the new capacity coming in place 30% will be exclusively for mining right? It won't be for...

B.K. Bansal, Director, Finance

No, no, it will be for OTR and the ratio would be around 40% to 45%.

Manoj Bahety

Okay. 40% to 45% will be for mining out of that?

B.K. Bansal, Director, Finance

Not mining, OTR.

Manoj Bahety

Okay.

B.K. Bansal, Director, Finance

It includes industrial, construction and mining tie ups.

Manoj Bahety

Okay, okay. And will it be possible to share that out of this 45% how much will be for mining in the new CapEx?

B.K. Bansal, Director, Finance

No, no, no. That is something which is not available with me right now.

Manoj Bahety

Okay. Right sir. Thank you for answering my question and wish you all the best.

B.K. Bansal, Director, Finance

Yeah, thank you very much.

Operator

Thank you. Our next question from the line of Mr. Paras Nagda from Enam Holdings. Please go ahead.

Analyst

Sir congratulations on a good set of numbers.

B.K. Bansal, Director, Finance

Yeah, thank you.

Analyst

Yeah. Sir I had two questions. First is on our capital expenditure. I'm sorry I missed what will be the FY13 and '14 capital expenditure like?

B.K. Bansal, Director, Finance

FY13 I think it would be around 600 crore to 700 crore.

Analyst

Okay.

B.K. Bansal, Director, Finance

And similar around 500 crore to 600 crore would be FY14.

Analyst

Okay. And out of that you already mentioned that 900 crores...

B.K. Bansal, Director, Finance

Yeah, that has been incurred till 30th June from the beginning.

Analyst

From the beginning.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay. And sir could you quickly explain us the hedging with respect to the sales, raw material and the balance sheet all the three kind of hedging that you have taken?

B.K. Bansal, Director, Finance

See we have exposed to the extent of 90% to 92% and we have import which is equal to 50% of our exports. So our net exposure in foreign currency is around 50%, so which is largely in to euro currency and which we hedge by way of forward contracts. So what we do is we book forward contracts throughout the year on rolling basis so that at any point in time we are covered for next 12 months.

Analyst

Okay. So you mentioned in the last conference that you were covered at 70 rate for next 12 months.

B.K. Bansal, Director, Finance

Yeah, yeah. So when I say today I am covered till July 2013.

Analyst

Okay. And what will be the average rate at which you have taken?

B.K. Bansal, Director, Finance

In terms of euro it would be around 71 and dollar would be around 52-53.

Analyst

Okay. And sir, coming on the balance sheet side?

B.K. Bansal, Director, Finance

Yeah. What was your question sorry?

Analyst

Coming on the balance sheet side what kind of hedging have you done for the funding basically?

B.K. Bansal, Director, Finance

No, we have not done any hedging for that because you the repayments are three years later.

Analyst

Okay, sure. And sir just one last question. The 20 crore ForEx loss which you have mentioned in this quarter is it notional or is it actual or is it...?

B.K. Bansal, Director, Finance

Yeah it is purely notional. It is basically on the working capital borrowings and it is purely notional.

Analyst

Surely sir. Thanks a lot.

B.K. Bansal, Director, Finance

Yeah.

Operator

Our next question from the line of Rinki Gujera from Enam Direct. Please go ahead.

Rinki Gujera

Sir, I had questions on your volume. In America if I see on a Q-on-Q basis the volumes have declined by 8% like you mentioned U.S. decline and may be Latin America had a growth there.

Again in Asia also on a Q-on-Q basis there is a decline of 14%, so if you could throw some light on this factor?

B.K. Bansal, Director, Finance

Sorry, I don't have these numbers with me. So, with me so you can get the clarification offline from me.

Rinki Gujera

Sure sir. I will do that. And sir in all our ForEx loss as you mentioned earlier it was 17 and 20. So our total ForEx loss is 37 crores.

B.K. Bansal, Director, Finance

See of the 17 is basically a crystallized exchange gain or loss

Rinki Gujera

Okay.

B.K. Bansal, Director, Finance

Attributable to sales and purchase transactions.

Rinki Gujera

Okay.

B.K. Bansal, Director, Finance

And this 20 crore is only on the borrowings which is purely notional in nature.

Rinki Gujera

Sure that was helpful. Thank you so much sir for taking my questions.

Operator

Thank you. Our next question from the line of Anurag Randev from PUG Securities. Please go ahead.

Anurag Randev

Congratulation sir on your consistent performance.

B.K. Bansal, Director, Finance

Yeah, thank you.

Anurag Randev

Sir my question pertains to the growth what we are expecting in overseas market. My question is now what we are seeing is that the raw materials especial on natural side, the natural rubber prices the things have stabilized and then even now the demand is also moderating in Europe as well as in U.S.

So is there any possibility that Balkrishna Industries may have to go for some sort of a price decline also or you have to take a price cuts in the overseas market?

B.K. Bansal, Director, Finance

No,no,no, no. We don't have to take any price cuts to boost that sale.

Anurag Randev

Okay.

B.K. Bansal, Director, Finance

Because that is not going to help.

Anurag Randev

Yeah, no I am just asking you from the perspective that when the commodity prices were moving up so in tandem we also accordingly increased our prices but now when the things are getting stabilized and there is some pressure on the demand side also. From the overall market perspective are we looking at that...

B.K. Bansal, Director, Finance

Yeah as of now I can say that we do not have any such plan or I don't see any possibility of that thing.

Anurag Randev

Okay.

B.K. Bansal, Director, Finance

But tomorrow it depends on the market situation and how competitors behave we may decide accordingly.

Anurag Randev

Okay. And sir my the next question is on the way we are looking at the on the CapEx also. So earlier we were talking about increasing our share in this radials also post our CapEx in FY13, what would be our radial mix in overall product portfolio?

B.K. Bansal, Director, Finance

Radial would be 35%.

Anurag Randev

Okay, and currently it would be sir?

B.K. Bansal, Director, Finance

Currently it is 25%.

Anurag Randev

Okay. Thanks a lot sir, that's it from my side.

Operator

Our next question from the line of Ashwin Patil from LKP Securities. Please go ahead.

Ashwin Patil

Hello sir, good afternoon.

B.K. Bansal, Director, Finance

Good afternoon.

Ashwin Patil

Congratulations on a good set of numbers.

B.K. Bansal, Director, Finance

Yeah thank you, thank you.

Ashwin Patil

Sir as we are expanding I would like to ask one question that can you throw some light on what kind of capacity expansions are carried out by your peers across the world. If you could give some sense on it sir?

B.K. Bansal, Director, Finance

I have no idea what our peers have done, but whatever I know I think they have not done any capacity expansion in overseas segment.

Ashwin Patil

Okay, okay. So neither of like Titan or Mitas or any of your competitors are expanding in the way we are expanding in India?

B.K. Bansal, Director, Finance

No, no, no.

Ashwin Patil

Okay sir. And sir any sense on currently how much is the global OTR segment size?

B.K. Bansal, Director, Finance

Global OTR market would be around \$8 billion.

Ashwin Patil

\$8 billion. And the growth rate in it, sir?

B.K. Bansal, Director, Finance

It's around 4% to 5%.

Ashwin Patil

4% to 5%. Okay sir. Thanks a lot.

B.K. Bansal, Director, Finance

Thank you.

Operator

[Operator Instructions]. We'll take our next question from the line of Mr. Neelesh Dhamnaskar from Religare Asset Management. Please, go ahead.

Neelesh Dhamnaskar

Yeah hi, sir. Thanks for taking my questions.

B.K. Bansal, Director, Finance

Thank you.

Neelesh Dhamnaskar

My question pertains to your balance sheet. Sir in your balance sheet, I have the last year's annual report with me. So, in this the advance payment of taxes and tax deducted at source is 364 crores, again in the previous year also the amount was large, but when I see your tax liability on annual basis it's just 84 crores, 85 crores, why is this amount so large vis-à-vis the actual tax payout?

B.K. Bansal, Director, Finance

Till this assessment is over, we continue to show it in to the advance tax. Once the assessment proceedings are over we adjust it against the provisions and knock it off.

Neelesh Dhamnaskar

Okay. But vis-à-vis the actual number why is this number so large, is it on account of accumulated?

B.K. Bansal, Director, Finance

Yeah, it's accumulation of two to three years because assessment generally happens after two to three years.

Neelesh Dhamnaskar

Okay, okay. Yeah, fair enough. That's all from my side. Thanks a lot.

B.K. Bansal, Director, Finance

Yeah, thank you.

Operator

Thank you. Our next question from the line of Nishant Vass from ICICI Securities. Please go ahead. Nishant you may go ahead with your question.

Nishant Vass

Yeah, sorry. Sir, I just wanted directional kind of a target from the management in terms of post the Bhuj commissioning completely in say '14 and mid '15 what would be the target margin performance that the company would be targeting at that time, in terms of both the EBITDA and the PAT margins?

B.K. Bansal, Director, Finance

So, as we have been always saying that our broad range of EBITDA margin would be anywhere between 18% to below 21%, 22%.

Nishant Vass

So, for FY14, FY15 you would be on a base...

B.K. Bansal, Director, Finance

Yeah we would be anywhere between these numbers.

Nishant Vass

Okay. And on the PAT front?

B.K. Bansal, Director, Finance

On PAT front it would be around 9% to 10%.

Nishant Vass

So, you wouldn't see any decline?

B.K. Bansal, Director, Finance

No, no.

Nishant Vass

Okay. Thank you that's all.

B.K. Bansal, Director, Finance

Yeah, thanks.

Operator

Thank you. Our next question from the line of Subrit Trivedi from Icra. Please go ahead.

Analyst

Yeah. Thank you sir for taking my question.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Sir just to understand the sector I had a very basic question. When you say that out of your total capacity 70% at present would be agri and 30% would be industrial. Is there a fungibility between these capacities or they are fixed?

B.K. Bansal, Director, Finance

They are fixed but it can be changed by adding some equipments. But largely I would say it is fixed.

Analyst

Largely fixed.

B.K. Bansal, Director, Finance

Yeah.

Analyst

And within them also there would be bias and radial which would again be fixed?

B.K. Bansal, Director, Finance

Yes.

Analyst

Okay. So for the new Bhuj facility what percentage would be radial?

B.K. Bansal, Director, Finance

It would be around 35%.

Analyst

Okay. And just to understand how much would the radial tyre be costing more as compared to a normal bias tyre.

B.K. Bansal, Director, Finance

10% to 15%.

Nishant Vass

Okay. So the difference here is lower as compared to let's say a truck tyre where the difference would be for us higher?

B.K. Bansal, Director, Finance

Sorry, come again?

Nishant Vass

The difference for OTR tyre for us be lower as compared to a tyre, where perhaps the radial tyre would be much more costlier?

B.K. Bansal, Director, Finance

Yes, yes.

Nishant Vass

Okay. And in terms of investment for setting up a capacity if you could give some indicators like you current Bhuj capacity perhaps would be in the range of 7 crores and 7.5 crores per TPD.

B.K. Bansal, Director, Finance

No, it depends on what is the mixture of radial and non radial and again whether you have more OTR kind of tyres which is where the cost of the plant is more than the other agricultural tyres, but I can give you a very ballpark number of around Rs.4 crore per tonne per day.

Nishant Vass

4 crores per TPD.

B.K. Bansal, Director, Finance

Yeah.

Nishant Vass

Okay, okay. Okay sir that's all from my side, thank you.

Operator

Thank you. Our next question from the line of Mr. Mahindesh from Sinquest. Please go ahead.

Analyst

Good evening sir. I don't know whether this question has been answered before I mean the global developers have been declining off late I mean since the last six months or so, are there any benefit for this on your company going ahead?

B.K. Bansal, Director, Finance

No benefit has already been reflected in the numbers which we have declared.

Analyst

Okay.

B.K. Bansal, Director, Finance

And if the prices remain at the current level.

Analyst

Okay.

B.K. Bansal, Director, Finance

Then we don't foresee any further benefit.

Analyst

Okay. Sir and then can you quantify for each dollar or may be something like with respect to the margins how much of expansion can we expect?

B.K. Bansal, Director, Finance

Sorry, come again.

Analyst

Can you quantify for example for each dollar decline in the rubber price, what is the margin expansion or any correlations there between the two?

B.K. Bansal, Director, Finance

I do not have that calculations, so I cannot answer this.

Analyst

Okay. Sir and also if you take the current action rates if they remain at the same level going at in the next quarter also. Can we expect the production has to come down or there would be a gain or?

B.K. Bansal, Director, Finance

If it is at the same level then there will not be any further loss.

Analyst

Okay. So taking into account your future positions of the hedges and all?

B.K. Bansal, Director, Finance

Yeah. I mean basically on the borrowings if the dollar remains where it was on 30th June, there will not be any further loss.

Analyst

Okay sir, okay.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay sir. Thank you very much sir.

B.K. Bansal, Director, Finance

Yeah.

Operator

Our next question from the line of Mr. Bharat Sheth from Quest Investment. Please go ahead.

Analyst

Hi sir. Congratulations.

B.K. Bansal, Director, Finance

Yeah, thank you.

Analyst

Sir on just balance sheet side, how much is our total borrowing and how much is on foreign currency and how much is rupee and...

B.K. Bansal, Director, Finance

The entire thing is in foreign currency the total borrowing is around Rs.1,600 crores and we have a cash of around Rs.100 crores, so our net borrowing is Rs.1,500 crore. Out of which the term borrowing is 850 crores and balance is working capital borrowing.

Analyst

Okay, okay thanks sir. And our average cost of borrowing?

B.K. Bansal, Director, Finance

Is around 3% to 4%.

Analyst

Okay. Thank you.

Operator

Mr. Sheth do you have any more questions?

Analyst

No, thank you. Thanks.

Operator

Thank you. We will take our next question from the line of Saurabh Kanodia from Smith Securities. Please, go ahead.

Analyst

Good morning sir.

B.K. Bansal, Director, Finance

Yeah, hello.

Analyst

Good afternoon sir.

B.K. Bansal, Director, Finance

Good afternoon.

Analyst

Sir, I wanted to know is there any gain in market share which we have seen in last quarter?

B.K. Bansal, Director, Finance

No, no, no. Nothing, nothing.

Analyst

No. And can you help me out with the number, and can you help me out with the number of distributors or dealers which we are having currently?

B.K. Bansal, Director, Finance

I think it is more or less same around 200 distributors across 120 locations.

Analyst

Okay. And this rubber inventory which you are carrying of around two months to three months can you help me with the cost?

B.K. Bansal, Director, Finance

Around \$3,500.

Analyst

Around \$3,500.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay. Thank you sir.

B.K. Bansal, Director, Finance

Yeah.

Operator

Thank you. Our next question from the line of Ms. Pooja Shah an Investor. Please go ahead.

Analyst

Good afternoon sir. My first question is, there was an -- about an anti-dumping duty imposed on carbon black, I just wanted to understand if we would have any impact of the same?

B.K. Bansal, Director, Finance

No, we would not have any impact because we have this scheme of advance licensing available to us. So, whereby we can make duty-free imports. So, it will not be -- it will not impact us.

Analyst

Okay, okay. Because right now also carbon black is imported right for us?

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay. All right, and my second question was with regards to sir our previous CEO had after resigning has started Alliance Tyres just wanted to understand is Mr. Anurag Poddar also has resigned would there be -- is there a non-complete clause, is there -- I mean there is a rumor that you know something might be coming up. Just wanted to understand your thought on the same and what's

the situation is?

B.K. Bansal, Director, Finance

No, I would not comment anything on this forum. Okay, you can discuss this with me later on offline.

Analyst

Okay, sir. No problem. Thank you.

Operator

Our next question from the line of Mr. Rishendra Goswami from Locus Investments. Please go ahead.

Analyst

Hi, just a little bit of clarity on your margin this quarter for Q2 you said that the rubber you are expecting is coming of \$3,200 per tonne and then some of the other OpEx items that you have mentioned were kind of one time in nature in Q1 those going away. So the blended impact of these two factors do you expect the margins to improve in Q2 versus Q1?

B.K. Bansal, Director, Finance

Yes, definitely.

Analyst

Okay. And could you quantify how much you would expect 100 basis points?

B.K. Bansal, Director, Finance

No, it is very difficult to say.

Analyst

But it will be better than Q1.

B.K. Bansal, Director, Finance

Yeah.

Analyst

Okay. And just if you could quantify the one time items in the other OpEx of 178 crore, that would be great?

B.K. Bansal, Director, Finance

No, one time is only this exchange loss of Rs.17 crore. As I said all others are regular routine items which are always there in the OpEx.

Analyst

Okay. So this was just only one item of 17 crore.

B.K. Bansal, Director, Finance

Correct, correct.

Analyst

And this resulted from what I mean...

B.K. Bansal, Director, Finance

This is basically on the sales and purchase transactions. So this is basically crystallized a lot, so what happens that we book our initial sales and purchase at the custom rate.

Analyst

Right.

B.K. Bansal, Director, Finance

And the actual realisation happens either at the spot rates or at the forward contract rate.

Analyst

Right.

B.K. Bansal, Director, Finance

See because -- difference in custom and contract rate and see as we extend gain or loss as the case --.

Analyst

Okay sir, it's just the difference between what your revenue booking rate and the realisation rate, right? Hello?

B.K. Bansal, Director, Finance

Yeah, yeah.

Analyst

Okay. Got it and that's it, thanks, that's all.

Operator

Thank you. Our next question from the line of Mr. Neelesh Dhamnaskar from Religare Asset Management. Please go ahead.

Neelesh Dhamnaskar

Yeah, hi sir. Just a follow-up question. Sir this is on the product pricing. If the rubber prices continue to fall further, would you cut the product prices accordingly or the product price remains...

B.K. Bansal, Director, Finance

See, it is not only natural rubber there are other raw materials like carbon black, synthetic rubber and fabric, various chemicals. So it depends on their prices also. So we will take call on it as and when we feel it appropriate.

Neelesh Dhamnaskar

Right. But I mean have there been instances in your earlier years where you have where there has been a sharp fall in the raw material prices and you have actually reduced the prices?

B.K. Bansal, Director, Finance

Yeah, that is yes of course that everyone does, so we also do that. It's quite natural.

Neelesh Dhamnaskar

Since you are in a replacement market. So I mean generally the benefit remains with the producers, that's what has been seen. So, to what extent you pass on, that's the sense I wanted to have. So, my next question is what is the -- on what basis do you decide on the pricing I mean do you take percentage margin or EBITDA per kg kind of a benchmark?

B.K. Bansal, Director, Finance

No, we generally take it in percentage.

Neelesh Dhamnaskar

Okay. Because in that context if the rubber prices and the other raw materials were to fall and so after that you would be taking certain price cuts on that if you take same margin obviously your absolute profitability would be lower, so would that...

B.K. Bansal, Director, Finance

See, normally price increase or decrease happens with some time lag, so in the rising market it happens with time lag and you know we have to bear the brunt of that time gap and the same theory applies in the falling market. So, we also have to see how competitors behave and accordingly we take a call on it. So far nobody have announced any price cut so we are also taken a decision not to do it immediately.

Neelesh Dhamnaskar

Okay. But if the cut in price is an option which you always foresee as and when the raw material price...

B.K. Bansal, Director, Finance

Yeah, yeah definitely. You cannot deny from that.

Neelesh Dhamnaskar

Right, right. So, in terms of your target margins could you just reiterate now what are your target margins?

B.K. Bansal, Director, Finance

The target margins are around 20%.

Neelesh Dhamnaskar

20%.

B.K. Bansal, Director, Finance

Yeah.

Neelesh Dhamnaskar

Okay. The operating profit, okay. That's all from my side. Thanks.

B.K. Bansal, Director, Finance

Thanks.

Operator

Niket you may go ahead with your question.

Niket Shah

Yes sir. Sir, just one question from my end. With this new CapEx coming up will we have initial CapEx dedicated to agri segment first and then the later one CapEx which is coming up in 2014 to mining or it will be a mix of agri and mining?

B.K. Bansal, Director, Finance

It will be a mix of everything.

Niket Shah

Starting from the September itself.

B.K. Bansal, Director, Finance

Yes.

Niket Shah

And sir have you seen any meaningful correction in your synthetic rubber prices because I think in last quarter Mr. Poddar had mentioned that synthetic prices continue to remain high and post that we have seen correction in crude. So have seen some benefit in synthetic prices coming off?

B.K. Bansal, Director, Finance

No, significant correction because currently also it is ruling between 2,800 to 3,000 level.

Niket Shah

2,800 - 3,000 level. And sir just one final question. We also have 12 month hedge book for U.S. the way we have for euro currency right?

B.K. Bansal, Director, Finance

Right.

Niket Shah

Okay, sir. Thanks so much sir.

Operator

Niket would you like to add any closing comments here.

Niket Shah

No, I will ask Mr. Bansalji, Mr. Bansal you would like to give any closing comments.

B.K. Bansal, Director, Finance

No, nothing. I thank you, thank you to everyone for sparing the valuable time to joint this call. Thank you.

Operator

Thank you sir. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.

B.K. Bansal, Director, Finance

Yeah, thank you.