Balkrishna Inds.

Operator: Welcome to Balkrishna Industries Limited Q1 FY27 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not guarantees of future performance and may involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation ends. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajiv Poddar, Joint Managing Director. Thank you and over to you, sir.

Management: Thank you, Manav. Good morning, everyone and thank you for joining us today. Today, along with me, I have Mr. Satish Sharma, Senior President and Director of Strategy and Business Development; our new CFO, Mr. Saroj Kuntia; Mr. Sushil Mishra, our Head of Accounts; and Mr. M.S. Bajaj, Special Advisor to Chairman and Managing Director, along with SGA, our IR advisors.

Let me begin by introducing Mr. Saroj Kuntia, our new CFO. Saroj is a Chartered Accountant with more than 24 years of experience across corporate finance, strategy, treasury management, capital markets, taxation, governance, risk management, M&A, and finance transformation. Prior to joining us, Saroj served as Vice President Finance at CG Power and Industrial Solutions. Earlier, he held CFO positions at Mahindra Sanyo Special Steel, Mahindra Electric Mobility and Mahindra Retail, among other leadership roles within the Mahindra Group. Prior to that, he was associated with IBM and Hindustan Unilever.

Let me now begin my remarks on the quarter performance. Q1 started on a positive note for us. We delivered our highest quarterly sales volume in the OHT segment. This performance is despite the challenges across many international geographies and end markets, as well as within the global supply chain. As guided earlier, we are closely monitoring supply chain disruptions and have taken price hikes alongside increasing efforts towards a superior product mix to partially offset this impact.

Further, during Q1, we launched our on-road products in the TBR and two-wheeler segment in the domestic market. Let me start with highlights of our OHT business. We continued the momentum of the previous quarter. Well into Q1, we reported our highest ever sales volume. We delivered 16% sales volume growth on a year-on-year basis. This performance was led by decent uptake in our end markets and segments. In Europe, we witnessed a stable environment. We are working with channel partners across key markets to further increase our market share in this large and key geography for us.

India performed exceptionally well in Q1, despite a high base from last year. Our marketing efforts along with a superior product range is helping us gain market share. The growing infrastructure capex in India is also aiding our performance. In the Americas, with the tariff duty settling at 10% levels, we have seen a better performance led by the USA. With a sharper go-to-market strategy and stable end markets, we expect growth momentum to sustain. In the Americas, we have a long runway of growth in the times to come, given the brand positioning for BKT and the focus on

Report is AI-generated and may contain inaccuracies.

high-quality products for that market.

For upcoming quarters, we would like to highlight geopolitical uncertainty with supply chain impacts on the availability of materials and costs, as well as the availability of vessels, containers, and freight costs. These, along with weather challenges in Europe and a patchy monsoon expected in India, are key variables towards near-term performance.

I will now share some insights into our Carbon Black business. I am happy to share that we have appointed Mr. Ashish Kumar Datta as Business Head for Carbon Black, effective July 3, 2026. Ashish brings with him 36 years of cross-functional leadership experience across chemicals, coatings, and polymers, spanning both domestic and international businesses. He joins us from Lubrizol Advanced Materials, a Berkshire Hathaway company, where, as Business Director for South Asia and South Africa, he held full responsibility for the P&L and performance of the region's coatings business. Over his career, he has held senior leadership positions at Toyo Ink, Welspun, DIC India, and Shalimar Paints, and began his career as an R&D Chemist at Asian Paints. A graduate of the Institute of Chemical Technology (ICT), Mumbai, with a degree in Polymer Technology, Ashish also holds an MBA from NMIMS and has completed executive education at Harvard. His strong grounding in chemical and polymer technology, combined with deep P&L and commercial leadership knowledge, positions him well to lead our growth in the Carbon Black business.

Let me now share some business highlights of this vertical. For Q1 FY27, our Carbon Black business recorded decent volume growth on a year-on-year basis with third-party sales at around 10% of the overall business. In this quarter, we commissioned phase two of our Carbon Black plant, taking the total capacity to 360,000 KTA. For the energy circularity model, we have also increased our captive power plant to 64 megawatt. Going forward, we expect geopolitical challenges to impact the pricing and supply of Carbon Black on the back of increased crude prices. We expect some price increases to offset raw material inflation. Further, demand continues to be robust in the segment.

Moving on to our on-highway business vertical. With the distribution network and channel infrastructure started in April, we went live with our go-to-market strategy. We have started supplies in the truck bus radial (TBR) segment and are seeing a positive response from the trade. Our foray into this segment will help us diversify our product range as well as take advantage of the opportunities on the back of infrastructure creation in India. Our two-wheeler tire product portfolio has been introduced with select products targeting the domestic market. Even here, we are witnessing encouraging reports and responses from end users. In June, we launched our 24/7 journey assistance program named "You Forward," aimed at reaching two-wheeler riders across India. This initiative marks the company's move beyond product offerings to on-road support services, positioning itself as a mobility partner throughout a rider's journey. To promote this initiative, we rolled out our first digital campaign featuring veteran actor Rakesh Bedi. Very clearly, we are moving on our stated path of high quality and product differentiation strategy for our on-highway portfolio, and we are witnessing increasing customer acceptance of this policy. Our entry into these new segments is a strategic adjacency that complements our existing strengths. Having seeded the business in Q1, we expect a gradual ramp-up starting in Q2. Having said that, the on-highway segment currently continues to be small, and therefore we will refrain from sharing revenue or volume details at this juncture.

Report is AI-generated and may contain inaccuracies.

At an overall level, while macro uncertainties persist, we remain focused on volume growth with margin discipline, leveraging our Carbon Black capacities to improve efficiency and quality, and progressively scaling up our on-highway business. Moving on to our new and ongoing capex projects. As a part of our ongoing capex plan, we have completed the following: a new line of Carbon Black at the Bhuj facility which was commissioned, taking our capacity to 360,000 KTA at a capital outlay of 800 crores. Also, we increased the power capacity at Bhuj from 40 megawatt to 60 megawatt at a capital outlay of 125 crores. All balance capex projects, amounting to approximately 3,000 crores, are progressing as per schedule.

With this, I now move on to operational highlights. For the quarter, our OHT segment volume stood at 93,770 metric tons, a growth of 16% year-on-year. Our standalone revenue for the quarter stood at 3,409 crores, registering a growth of 24% year-on-year. This includes a realized loss of foreign exchange pertaining to sales of 36 crores. The standalone EBITDA for the quarter was 703 crores with a margin of 20.61%. The margin was particularly impacted on account of raw material prices due to the global geopolitical situation and its impact on the supply chain. The impact was partially offset by certain price hikes during the quarter.

Further, India's contribution has increased to 40% of the overall volumes, which has impacted the margins slightly. Profit after tax for the quarter stood at 432 crores. We expect a better flow-through from EBITDA to PAT as we steadily scale up our volumes in the on-highway segment and benefit from the improved trajectory of our core OHT business. Our capex for this quarter stood at approximately 1,000 crores. As on June 30, 2026, the gross debt and cash and cash equivalents were approximately 4,690 crores and 2,965 crores respectively. Accordingly, we have a net debt of approximately 1,725 crores. The Euro rate for the quarter was at around 102. The Board of Directors has recommended a first interim dividend of 4 rupees per equity share. With this, I conclude my opening remarks and leave the floor open for Q&A.

Operator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we'll wait for a moment while the question queue assembles. We have our first question from the line of Raghunandan from Nuama Research. Please go ahead.

Raghunandan – Nuama Research: Congratulations Rajiv sir and the entire team. Firstly, in the off-highway segment, India, Europe, and the Americas are showing improvement. Can you highlight your current market share in these markets and the specific efforts you are focusing on to increase share? Also, please share dealer inventory levels and whether they are normal or higher than normal given the uncertain environment.

Management: India market share is close to 18-19%. The USA is about 3-4%. We are working on those markets, and end-user levels of inventory are normal. There is no build-up or shortage at the moment; it is a normal build-up.

Raghunandan – Nuama Research: And Europe will be above 8% market share? Would that be a fair estimate?

Report is AI-generated and may contain inaccuracies.

Management: In that region, yes, maybe 7-8%.

Raghunandan – Nuama Research: Thank you, sir. For Q1, can you indicate the commodity impact and the price hike that was taken? Also, if you can indicate the expectation of commodity inflation impact in Q2 and how much more in price hikes you are planning.

Management: We have taken a price hike of about 5% scattered across various parts of the quarter. You will see the full pass-through coming in this quarter. Regarding future price hikes, we are still working on the market scenario and have not announced anything further as of the moment.

Raghunandan – Nuama Research: And the raw material basket or commodity inflation for Q1 and Q2? How much would that be? Some mass market companies have indicated an impact as high as 20%.

Management: Partly it has come in Q1, partly will come in Q2, and some will fall into Q3. Around 5% on raw material will hit in Q3, which will impact our sales price by approximately 3%. Part of that will be offset by the price increase already taken by us, which will be fully applicable in this quarter. Specifically, if the cost basis of the raw material increases by 5%, the impact on the sales price is approximately 3%. Out of that, we are expecting it may impact our margins by 2% in the coming quarter.

Raghunandan – Nuama Research: Understood, sir. And just the last question for FY27: what is the hedge rate for Euro-INR? You started the year with 102, whereas the spot price is higher at 110. For the full year FY27, should we get a better rate? It could act as a support to your margin.

Management: We were expecting a better rate, but we do not share the exact rates.

Raghunandan – Nuama Research: Noted, sir. And can you share the Q1 freight rate as a percentage of revenue?

Management: It used to be around 5%.

Raghunandan – Nuama Research: Thank you, sir. I'll come back in the queue and wish you all the best.

Operator: Thank you. We have our next question from the line of Momuksha Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Momuksha Mandlesha – Anand Rathi Institutional Equities: Thank you, sir, for the opportunity. First, on Europe demand, this quarter saw good growth. Can you elaborate on what is driving the improvement in demand and do you expect double-digit growth to continue for the rest of the year?

Management: To begin with, the base last year was lower. Furthermore, they have had a good monsoon and a good season, which is positively impacting their agricultural segment.

Momuksha Mandlesha – Anand Rathi Institutional Equities: Got it, sir. And any update on the refund of the US duty? Did anything come in this quarter?

Report is AI-generated and may contain inaccuracies.

Management: It is too early to share details on that. We will keep you posted as and when things progress.

Momuksha Mandlesha – Anand Rathi Institutional Equities: Got it, sir. Finally, what is the capex estimate for this year?

Management: Between 1,500 to 2,000 crores additional balance.

Momuksha Mandlesha – Anand Rathi Institutional Equities: So totally around 2,500 to 3,000 crores for the year?

Management: Yes.

Momuksha Mandlesha – Anand Rathi Institutional Equities: Got it. Thank you so much for this.

Operator: Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants, please limit your questions to only two per participant. The next question is from the line of Siddharth Bera from Nomura. Please go ahead.

Siddharth Bera – Nomura: Hello. Thanks for the opportunity and congratulations on a good set of numbers. First question on Europe: while we grew strongly in the first quarter against a weak base, there is increasing talk about adverse heat waves impacting crops. Do you see any risk to this growth with this adverse weather, as we have seen impacts from these events in the past?

Management: It is too early to take a call on whether that would have an impact because they have also had a good monsoon to counter that. It is early to make those kinds of comments.

Siddharth Bera – Nomura: Understood. Regarding freight increases, have we seen the entire impact in the current quarter or do you think freight rates can move up further, requiring more price hikes?

Management: There will be some part that may increase if the current scenario continues, where we had a dip in the middle and then it went back up. We thought it would have subsided, but if the situation persists, we may see some increase and will see how best we can pass it on. If the scenario continues as it is now with the stop in the peace process, we may see some impact coming in.

Siddharth Bera – Nomura: Understood. And sir, lastly on the capex side, did you mention a total capex spend of 3,000 crores for FY27?

Management: Yes, 1,000 crores is already spent and between 1,500 to 2,000 crores additional is to be spent in this financial year.

Siddharth Bera – Nomura: In the past, you shared a plan for about 4,000 crores over the next three years. Does that mean a large part is front-ended and will come down meaningfully next year?

Management: If you put the numbers together, you will come to that conclusion. A total of 3,000 crores is left to spend, and if we are spending 1,500 to 2,000 crores in this financial year, the balance would be descending.

Report is AI-generated and may contain inaccuracies.

Siddharth Bera – Nomura: Got it, sir. And lastly on the India business: the India off-highway business has grown substantially. Excluding the on-highway segment, do you see the possibility of much stronger growth continuing for India in the next few years?

Management: Yes.

Siddharth Bera – Nomura: Is it coming from market share gains or filling product gaps?

Management: You have to break this down into two parts. If exports pick up the way they used to, you will see the percentage numbers come down. But overall, on a standalone actual number basis, India will continue to grow. There are still pockets within the off-highway space that we need to cater to, and we are moving in that direction. It is a mix of product expansion and entering new segments within off-highway which we were not previously catering to.

Operator: The next question is from the line of Krish Mehta from Inam Holdings. Please go ahead.

Krish Mehta – Inam Holdings: Thank you for taking my question. Just a clarification on the capex: regarding the plan through 2030 to reach 23,000 crores of topline, what would the total capital expenditure be?

Management: Total capex is 6,800 crores. Out of that, we have spent roughly 3,800 crores. 3,000 crores is the balance. Out of that, we are estimating a spend of between 1,500 to 2,000 crores in this financial year.

Operator: Thank you. We have our next question from the line of Vijay Pande from Axis Capital. Please go ahead.

Vijay Pande – Axis Capital: I wanted to understand the dynamics in play in the Indian business. We have recorded significant growth over the last three quarters in India. Is this coming from the tractor business or construction and infrastructure?

Management: It is coming from all sectors: industrial, construction, mining, as well as agriculture. It is a combination of replacement demand and support from the mining sector.

Vijay Pande – Axis Capital: Secondly, because of the price increases, was there any impact of pre-buying in Europe? A peer highlighted that some pre-buying was happening there.

Management: No, we don't see any significant pre-buying. Inventory levels are normal. If any pre-buying occurred, it was very minimal to our knowledge.

Operator: We have our next question from the line of Yash Agarwal from Nirmal Bang. Please go ahead.

Yash Agarwal – Nirmal Bang: On the US market, have customers started building inventory following tariff-related disruptions? Are you seeing any meaningful change in competitive intensity? Since the US share has gone down to 11–12% of overall revenue, can we expect this to return to the historical 15–16%?

Report is AI-generated and may contain inaccuracies.

Management: As I mentioned in my opening remarks, in the Americas, we have a long runway of growth in the times to come given the brand positioning and focus on high-quality products. We expect the US market share to go back to 15-16% and it will be a major growth area for us.

Yash Agarwal - Nirmal Bang: As the domestic on-highway segment scales up, how should investors think about the margin profile versus the core OHT business?

Management: Under current volatility, we cannot make any comments on future statements.

Yash Agarwal - Nirmal Bang: Regarding capex, since the major cycle will be behind us after this year, should we expect stronger free cash flow and higher capital returns from FY28 onwards?

Management: I cannot comment on those things because the Board has to take those decisions.

Operator: We have our next question from the line of Lokesh Manik from Value Capital. Please go ahead.

Lokesh Manik - Value Capital: Regarding gross margins, apart from raw material costs, was there any impact from the channel change? OEMs increased quite a lot this quarter, and I assume they are lower margin compared to replacement.

Management: No, there was no other impact.

Lokesh Manik - Value Capital: On the two-wheeler space, you alluded to positioning yourself as a service provider to differentiate. How much weight does service carry in a customer's buying decision versus the product itself? Do you have feedback from your marketing team on this?

Management: Over and above the product differentiation, this is a unique experiment where we want to stay with the life cycle of the customer. We don't want to be out of their mind space once they've bought the product. We are telling the customer that so long as you're on our product, we are by your side. It is customer life cycle management. Early response is quite good and the number of customers opting for this offer is matching our expectations. It will only go from strength to strength.

Operator: We have our next question from the line of Basudev Banerjee from CLSA. Please go ahead.

Basudev Banerjee - CLSA: The India revenue mix is higher than the Europe revenue mix for the first time. Was this growth driven equally by agriculture and industrial, or was it more about the continuous addition of Carbon Black revenue?

Management: This was mainly from the off-highway tire market across all three segments: agriculture, mining, and industrial construction.

Basudev Banerjee - CLSA: Previously when the India mix was under 20%, you mentioned India margins were lower than export margins. How has that progressed?

Management: As I said in my opening remarks, it is marginally lower, and that has had an impact, but it is not as low as it used to be earlier.

Report is AI-generated and may contain inaccuracies.

Operator: Thank you. We have our next question from the line of Yohan Kinwasara from Asian Broking. Please go ahead.

Yohan Kinwasara – Asian Broking: Regarding the US tariffs, they have started refunding significant amounts. Have we started applying for these refunds?

Management: Yes, as all companies have, we have initiated the process, but it is too early to comment on when the returns will arrive.

Operator: Thank you. We have our next question from the line of Raghunandan from Nuama Research. Please go ahead.

Raghunandan – Nuama Research: A question for Satish sir regarding on-road efforts. How do you see FY27 and FY28? The annual report indicates 70 distributors have been added. How many more are required and what is the initial feedback for the truck and two-wheeler brands like Load Expert and Mile Expert?

Management: We have had a very encouraging response to the first quarter of operations. Q1 was about setting systems, getting the machine to run, and conducting seed marketing. The ramp-up of sales and production is going as per plan. Regarding the vision of 5,000 crore revenue from on-highway tires by 2030, we stand by that figure. FY27 will be a year of building the portfolio, and FY28 onwards will be serious business. As production ramps up, we will keep increasing our footprint through the dealer route.

Raghunandan – Nuama Research: And for Mr. Bajaj, employee costs increased 18% year-on-year to 153 crores. Is this due to the minimum wage increase in Gujarat?

Management: It is a combination of a few things: the wage increase in Gujarat, annual increments for staff, and increasing our workforce for the new business. As the turnover of the new business kicks in, this will normalize.

Operator: Thank you. We have our next question from the line of Disha Seth from Anand Rathi. Please go ahead.

Disha Seth – Anand Rathi: Since the India business is targeted to reach 20% by 2030, how are we dealing with dealer margins given the established players in the market? Are we giving higher margins?

Management: We do not share our margin figures for the channel. We will gain market share through a great product strategy.

Disha Seth – Anand Rathi: Regarding the 24% sales momentum, do you plan to sustain this in coming quarters based on your order book?

Management: We do not give forward-looking statements. I am repeatedly saying please do not ask for forward-looking statements. We will refrain from it.

Disha Seth – Anand Rathi: Understood. In terms of margins, as the India business grows to 20%, will the overall margin profile tweak?

Report is AI-generated and may contain inaccuracies.

Management: We don't give forward-looking statements.

Operator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to the management for closing comments.

Management: Thank you, everyone, for taking the time to join us. I look forward to meeting you all in the next quarter. Thank you.

Operator: Thank you. On behalf of Balkrishna Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Report is AI-generated and may contain inaccuracies.