"PCBL Limited
Q3 FY2023 Earnings Conference Call"

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ANALYST: **MR. SANJESH JAIN – ICICI SECURITIES**

MANAGEMENT: **MR. RAJ GUPTA – CFO - PCBL LIMITED**
MR. SAKET SAH – HEAD - INVESTOR RELATIONS - PCBL LIMITED
MR. PANKAJ KEDIA – VP - INVESTOR RELATIONS - PCBL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to PCBL Limited Q3 FY2023 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you, and over to you, Mr. Jain.

Sanjesh Jain: Thanks, Nirav. Good morning, everyone. Thank you for joining on for PCBL Limited Q3 FY2023 Results Conference Call. We have PCBL management on the call represented by Mr. Raj Gupta, Chief Financial Officer; Mr. Saket Sah, Head, Investor Relations; and Mr. Pankaj Kedia, Vice President, Investor Relations. I would like to invite Mr. Raj Gupta to initiate the call with his opening remarks, post which we will have an opportunity for a Q&A session. Over to you, Raj. Thank you.

Raj Gupta: Thank you, Sanjesh, thank you, Nirav, and a very good morning to everyone. On behalf of PCBL I extend a very warm welcome to all of you on our earnings call.

I would first like to take a moment to introduce Mr. Saket Sah who has just joined the group as Head, Investor Relation. Saket is an Alumnus of Welingkar Institute of Management in Mumbai and brings to us over 20 years of the rich strategic experience across various industries and functions. Prior to PCBL he was heading the investor relations and ESG reporting for Grasim Industries. He also had a stint with Citi Group. At the group level, Saket will also be spearheading ESG and sustainability initiative.

Coming to quarter three performance. We reported Rs.1463 Crores in the operating revenue during the quarter. EBITDA for the quarter was Rs.176 Crores. PBT and PAT stood at Rs.128 Crores and 100 Crores, respectively. On YTD basis, our revenue from operations was Rs.4500 Crores while EBITDA stood at Rs.575 Crores as against Rs.3228 Crores of revenue and Rs.534 Crores of EBITDA during the same period last year.

On quarter-on-quarter basis realization per ton was almost flat due to steep correction in crude prices. The formula pricing would correct by over $200 per ton in quarter four over quarter three. As a result, there was a significant level of inventory liquidation at customers end, resulting in lower off take during quarter three. Volumes during the quarter were around 101000 ton, down about 10% from the previous quarter,. We believe part of this volume, we will be able to make up in quarter four.

Also despite the drop in volume, with our well-spread customer and product portfolio, we could still maintain the overall profit margins. EBITDA per ton during the quarter was Rs.17357 as against Rs.16863 during quarter two. Commissioning of new Co- generation power plant during the year has resulted in significant debottlenecking of our power capacity and now we are able to generate and sell more units of power per ton of carbon black production. On a YTD basis, we have generated on an average about 1338 units of power per ton of carbon black and this number in the same period last year was 1148 units, which is almost 190 units of increased generation per ton of carbon black production.

Quarter three power generation was even higher at 1361 units per ton of carbon black. Average realization during quarter three from power sales was Rs.3.73. We are seeing an uptick in power tariff in the current quarter with average exchange price of around Rs.6.4 per unit in January as against an average of Rs.4.55 during quarter two.

Specialty volume during the quarter was around 9000 tons, which is roughly 10% lower than previous quarter, again primarily on account of inventory liquidation at customers end. We are getting very strong demand commentary from auto and tyre industry and which is also reflecting in off take in the current quarter in our industry. So we expect volume wise better quarter in quarter four.

On the project side first line of Tamil Nadu is ready, which is roughly 40% of total Tamil Nadu capacity. We are awaiting some approvals from electrical Authority for start up power. We expect maybe about two, three days' time before which we can start the trial run. Second line will come up with a gap of about 15 days or , so ideally by end of this month that line should also be ready and we will commission the third line maybe soon after that, but more or less the project is ready and anyone of you if you happen to be in Chennai we will be happy to host you there so you can have your own assessment of the project. On expansion of specialty line, out of the proposed two lines first line is in advanced stage of construction and we expect the line to be ready by March 2023, it will be around 20000 tons line. Commissioning of second line to take another year, so maybe by March 2024 we will have that line also ready. With this, friends I open the floor for your questions.

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

Aditya Khetan: Thank you for the opportunity, sir. My first question is on the domestic market volume. We are witnessing in this quarter that the domestic volumes have declined by 7% on quarter-on-quarter basis. So are we witnessing domestic demand also have started to falter or has become weak and how is the current trend for the month of January.

Raj Gupta: Like I said our volume during the quarter are around 10% lower compared to the previous quarter and I said that there would be steep price correction between last quarter and this quarter. So there would be a temptation at customers end to reduce the inventory level.

Aditya Khetan: So what you are expecting that the export demand was somewhat weak, but now we have started to witness a decline in the domestic volumes also so just wanted to get an idea how is the domestic market like going right now.

Raj Gupta: Domestic demand scenario looks pretty encouraging, I mean, not only tyre and auto companies are manufacturing more,they are also exporting more. So both domestic demand as well as overall manufacturing level in India that has gone up and that is more structural. So we do not see any challenge on the demand side, but if there is the 16%, 17% price drop and we operate in a formula pricing industry, our customers know that by shifting part of their offtake to subsequent quarter they will be able to procure it more economically. So therefore, both domestic market and international market there was a volume drop. Now international market; yes in Europe there is recession likely and therefore there are issues, but we have our own strategy. It is a pretty big market and what we are doing globally currently, is very small. In international market the volume that we do is just about a percentage of the total global demand. All we have to do is to knock on more customers doors and we have already invested heavily in our supply chain network so we are well connected with customers, have very strong presence locally in so many countries. so we do not see this scenario as something which is concerning.

Aditya Khetan: Sir for the Q3 FY2023 whatever stating the government data so when we get the imports of carbon black so there it was showcasing that import in India has started to increase on quarter-on-quarter basis they have gone up by roughly 7%, 8% so just wanted to know so this is particularly from which countries if you can highlight from China, Russia, South Korea, wherein we have started to witness increase in imports in India.

Raj Gupta: Well, first of all China is not as prominent both in terms of volume as well as in terms of their product costing. So the import from China in India is far less. I mean last month it was about 500 tons. You are right that the level of import in the interim had gone up. see the marketin last one, one and a half years has been extremely volatile in terms of Interest rates, commodity prices, oil prices, war in in Eastern Europe etc. Russia was not being able to utilize their capacity as before the war, they were selling primarily in Western Europe and then eventually Indian importers realizing that if they procure from Russia then they can procure it at a discount.Also, Incidentally in quarter two and even in quarter three the realization, carbon black pricing was very high. We were selling at almost Rs.140000 per ton and therefore there was an opportunity for them. So these things will continue to happen. some quarters you will see import going down significantly some other quarters it will move up, but for us what is important is to hold on to our own strategy, ensure that we have a balance between our margins and capacity utilization and that is exactly what we did in quarter 3.

Aditya Khetan: Sir now we are witnessing that the carbon black prices are started to decline so in declining carbon black prices scenario how does our spread grew like just an idea if you say we can maintain if there is a decline into the spreads.

Raj Gupta: Any change in crude prices should not impact our margins. Margin impact may come from different reasons. If we are talking about gross margins, then it can happen maybe if there is some kind of inventory buildup in the system. Similarly EBITDA level margin can change maybe because of change in some expense structure, your fixed cost is moving up or going down and there are other costs also, but otherwise, generally speaking, change in crude prices should not impact margins, as long as we are not building on massive inventory.

Aditya Khetan: And similar difference that are now expressing into the CBFS prices also so just wanted to know so this price decline in carbon like so this is majorly because of demand softening or this is a raw material pass on kind of a thing what is happening.

Raj Gupta: It is a raw material cost pass on. See previous quarter, quarter three when we are selling, our raw material was linked with crude at $100 and in quarter 4, our raw material will be linked with $85 crude. So it is just a reflection of change in crude.

Aditya Khetan: For the current quarter also so you are expecting that the crude price will remain in this range only $80 to $85 so that could be the range.

Raj Gupta: Last three, four months, crude prices have remained range bound between around $80, $85 so we are not seeing any significant price change in next quarter as of now, unless crude changes in February and March significantly.

Aditya Khetan: Just one last question from my side. Sir, on to the specialty business, the global growth what I was seeing, so that is expected to be around only 3% to 4% till around 2027, but we are confident that the specialty business will grow faster than the normal rate. So how should we look this in context with PCBL.

Raj Gupta: In Specialty if you look at global industry, the industry in last 4-5 years has been growing at a CAGR of about 6% to 7% so that % to 54% number I do not think that is correct number one. Number two, we are a new entrant in this space, specialty space, and therefore we have a smaller portfolio as compared to some of the large manufacturers. Also our market share is very small, in a 1-million-ton market what we have currently is just about 40000 tons. So it is a very small market share. We are yet to create a larger portfolio and we are yet to connect with number of more customers. So that is an opportunity for us and that is exactly what we are doing and therefore, we believe that next four to five years are going to be rapid growth period for us in specialty space.

Aditya Khetan: Thank you sir, that is all from my side.

Moderator: Thank you. Next question is from the line of Aatur from ICIC Prudential. Please go ahead.

Aatur: Hi! Sir, thank you for the opportunity. Sir, basically just on the previous question just wanted to check in terms of inventory impact, if you can help us understand given you said there are some decline in formula pricing, etc. So should we expect some kind of inventory valuation related impact going ahead in the coming quarters?

Raj Gupta: No, nothing significant, because we did not increase the inventory levels, we had a fair visibility around how the crude prices are moving and the formula price works with the quarter lag. So it is not something which happened suddenly for us and we knew that the prices are going to drop steeply and there will be tendency for our customer to shift part of the procurement to next quarter and accordingly, if you look at our production numbers, even the production has gone down in sync with our sales volume. So we have produced about 105000 tons as against 101000 tons of off take. So just 4000 tons, and that we built because we wanted to make up part of the lost volumes of quarter three, in quarter four. we believe that quarter four is going to be better volume wise considering the overall demand scenario plus the order book that we have. We believe that part of this 4000, 5000 tons we can utilise during the quarter over and above the normal volume,. So that is how we are looking at next quarter. So no significant impact of inventory.

Aatur: Second question on in terms margin like if we see gross margin per kg or EBITDA per kg which we have reported. So broadly one should expect similar trend even in the near term or should one expect some more normalization say next three, four months given where the pricing has moved.

Raj Gupta: So in our earlier calls as we indicated, because of all the initiatives the company has taken on portfolio buildings and operating efficiency side, we believe that structurally there would be a change in our margin profile and we took 2022 as base, the full year number as base, and we believe that in next four, five years on an average every year there should be about a Rs.1000 kind of increase in our EBITDA performance and we stick to that. In some years maybe that will be little more in some other years it will be little less. Quarter-on-quarter there can be some kind of fluctuation because this entire macroeconomic environment we are having currently, that itself is extremely volatile; demand scenario, supply scenario everything is changing so rapidly. Every quarter there can be little up and down, but trajectory wise or direction wise I think we are on the right path to reach what we communicated earlier.

Aatur: Fair sir thank you so much.

Moderator: Thank you. Next question is from the line of Riya from Aequitas Investments. Please go ahead.

Riya: Hi! Thank you for giving me the opportunity. My first question would be in regards of we have seen that 0.5-million-ton capacities coming up in domestic for all the players and we are seeing that export demand is also decreasing. Do you see that the going forward the domestic demand will make up for the incremental supply as well as decrease in exports going forward, and where do you see this coming from.

Raj Gupta: Well there are two to three things which we will have to understand here. Yes supply has come up, new capacity has come up. we have added about 0.5 million ton. But if we go two years back and if you look at where China was in terms of capacity and where they are today in terms of their capacity and production. They have created a massive vacuum on the supply side and that is way more than 0.5 million ton. So in a normal steady state, the market will remain under supplied that is number one. Number two while we are having this discussion of demand in Europe; we are talking about recession and a possible scenario in Europe. What has also happened simultaneously, the energy prices have gone up in Europe and therefore the level of manufacturing in Europe will also go down and while their overall consumption might go down, their manufacturing level will also go down. So Europe should also import more from other countries and that is an opportunity. So we do not believe that overall potential for export is going to go down despite whatever we are talking about Europe and the western part of the world. India is certainly producing more and selling more. Domestic demand is going up and India's export across the whole chain, not only in carbon black but also in auto and tyre that is also going up. So we believe that this production will be well supported by adequate demand and while there can be periods when capacity comes up and market look maybe a little over supplied, but till the next phase of capacity expansion, you will see old capacity getting utilized. So like when we also commission Tamil Nadu capacity, we are not saying that in the year one we will be able to utilize it fully, but what we said earlier also was that we feel that in two years' time we should be reaching peak utilization and therefore we are already now working on some brownfield expansions. So we do not think demand as a challenge or capacity utilization as a challenge for us going forward.

Riya: Export like you said Europe can be an opportunity if things go the other way where else do you see export, where do we see a decline which came in, in this current quarter and where do you see opportunity coming forward in terms of export.

Raj Gupta: The current quarter was not a reflection of demand scenario changing in Europe. Honestly even now. while we are talking about recession in Europe, it is still not reflecting in demand and therefore in current quarter we attribute this volumes drop primarily to the price correction which is expected between quarter three and quarter four. So it is not only Europe, it is across geographies. But then again the destocking which happened this quarter will support the volume off take in the next quarter.

Riya: So basically I am talking about 30000 production of carbon black which we did for exports this year 29098 versus 39000 almost 40000 last year and almost 36000 the previous quarter. So you are seeing a 20% decline on a Q-o-Q basis so where is this decline coming from in export volume.

Raj Gupta: It is across geographies. Europe in any case is just about 20% of our overseas volume. As of now Europe is not very big for us. Almost 75% of our volume are still sold in South East Asian countries. Europe strategically is important for us because we believe that going forward, because of changing trade relations, China producing less, Russia becoming kind of blacklisted for them, it creates a bigger opportunity for India. So that is structural change in the trade relation. Also our portfolio is well spread and we are present in 45 geographies. we also know that we need to create a strategy so that we don't have to depend on any part of the world in a big way. So our strategy is to knock on more customers doors if we see demand dropping in some part of the world. And like I said that we have invested heavily in our supply chain network and capability. We have created number of offices, warehouses, decanting stations, even R&D center also to engage well with customers.

Riya: And in terms of China now what is the spread currently the thin spreads and what would be the breakeven for them to do surpass our prices.

Raj Gupta: It is still more than $300. China prices remain $300 higher compared to ours.India I think the time has come when we should stop looking at what China is doing. They are no longer dominant in that space. This is reality. In two years' time, we will be competing with them and giving them a tough competition in their own geography.

Riya: Then where are we seeing the higher import coming from and do we see it is coming down this quarter.

Raj Gupta: Mostly it is Russian material which is getting imported in India some directly some through Middle East countries.

Riya: In terms of specialty since we saw some inventory liquidation at customers end this quarter do we see the volumes of 11000 coming back again next quarter like when do we see such kind of volume.

Raj Gupta: Yes, hopeful it will come back in this quarter.

Riya: There is no demand issues in specialty right.

Raj Gupta: No there is no demand issue and as I said that we are still very small. For us next five years growth will not be a problem.

Riya: Thank you that is it from my end.

Moderator: Thank you. Next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Good morning Raj and Saket. Raj in Q-o-Q despite decline in the quantity we have been able to improve our EBITDA margin so what has led to this is a structural change which we were talking help us in improving the EBITDA margin.

Raj Gupta: First of all as we lead the domestic industry, we have to be a little responsible and therefore when we saw supplies coming up and little softening on the off take because of price correction, we acted responsibly and did not start a price war that is number one. Number two, a good part of our other expenses is also variable so again volume goes down and our expenses also go down. For us what contributed to better EBITDA is there is a significant drop in freight cost. Freight cost which was very high in quarter one andquarter two, has gone significantly down in quarter three and it has almost come back to that pre-COVID level now and consequent to that we could still maintain better EBITDA profile despite this volume drop.

Bharat Sheth: In Q4 again a Y-o-Y there would be a significant improvement in EBITDA because last year we had a very high logistic cost correct is that fair understanding.

Raj Gupta: Last year logistic cost was on an upside mode whereas this year it is on declining mode.

Bharat Sheth: Now coming to this specialty business see we were expecting around 45000 ton in initial first part of our estimate so which now whereas we are roughly around 29000, 30000 so how do we see and then going back from 45000 to 54000 that medium-term projection that we were looking so where do we stand in that and how many number of products we have been really able to add during nine months.

Raj Gupta: First of all I would say that more or less we are on track. I mean I understand that initially it was around 45000 tons but when we started the year the global growth outlook was at about 3.5% GDP growth rate. Today it has already come down to around 1.5%. it is more than 50% decline in GDP growth. Now in that scenario if you look at our run rate, it is still better than last year's run rate, third quarter the volume drop which has happened, roughly a 1000 odd tons,is primarily on account of the price correction. It is not our inability to sell and therefore we are confident that we should be again able to get back to that 11000, 12000 ton kind of a run rate quarterly. We are optimistic about that.

Bharat Sheth: So is that fair understanding roughly we will be able to do around 40000 to 41000 tons for 2023.

Raj Gupta: I feel so.

Bharat Sheth: And now coming back to then again going back to see we were talking of additional 10000 so then it will remain around 50, 51 rather than 54 is that fair understanding for 2024.

Raj Gupta: See as I said market conditions are extremely volatile and therefore it is not that once we have lost some volume in one quarter, we can not make it up in subsequent quarters. So as of now I am not giving any indication about next year. Let us walk through the next quarter. Also I think by end of the year we will be in better position because then we will be more clear. so I think then I will be able to give you a projection. But we feel confident about our specialty journey. we are launching newer grades, we are adding specialty lines, and we are adding specialty customer. So we do not see any major challenge.

Bharat Sheth: So how many new products we have been able to and now currently what is product portfolio and where do we see in this two, three years' time.

Raj Gupta: Yes, we have been launching about 9-10 new grades every year. I think that should be our minimum pace of launches. As of now we have close to about 50 odd products in our portfolio.

Bharat Sheth: And is that fair to assume that new products generate a better margin than the current one.

Raj Gupta: Not necessarily, some of the grades will be a little higher on the value side but the whole idea is that we keep on creating newer solutions for our customers because what is Specialty today eventually in four, five years' time it will become a commodity. And therefore we will have to constantly do research constantly create something which is more meaningful for our customer.

Bharat Sheth: Okay, last, I mean, the commissioning of this new Tamil Nadu plant will have some kind of a because of lower utilization things goes so our EBITDA may not be high as well as interest cost may also go up.

Raj Gupta: We do not have significant borrowings in Tamil Nadu so interest cost will not be much, number one. Number two, because it is based on latest technology, we expect our overheads to be also relatively lower in this company. It is a new company and we are developing this Greenfield and therefore I do not think that to be a concern. we do not see a challenge at all in the utilization of capacity. So like we said that in two years' time possibly we should be utilizing it fully.

Bharat Sheth: Thank you and all the best Raj.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Thanks for taking my questions. First on the demand side, particularly demand supply dynamic in domestic for the export market it is us who have been dominantly established by the capacity addition which is coming by the two of our competition is largely cater to the domestic market and so we have highlighted this earlier as well that they do not have a meaningful export presence will this create a sort of imbalance in terms of demand supply situation in India that is number one. Number two, will it have any pressure on relooking the business model in the domestic where last five year has been a phenomenal for us in terms of cost-plus basis do you see risk in terms of your cost-plus basis in the situation where we expect for next two, three years at least there will be an excess supply that on the domestic market side. Second on the feed stock side, we have seen India importing almost 1/3rd of the crude oil requirement from Russia are we also looking to import more CBFS from the Russian market which gives us some sort of a cost advantage in terms of the raw material procurement, are we doing it is there on the card so these are two my initial questions. I will come back for more questions.

Raj Gupta: To answer your first question first.,We consider the whole globe as our market and while India remain the largest market for us, so far as our own strategy is concerned on the capacity utilization side, we do not depend on any geography including India in a big way. capacity that have come up and because these players do not have that bandwidth to export more or sell more in international markets possibly we will try to see the world market as source of utilization and we are well aware of that and this quarter also you will see that. We played responsibly and we strived to strike a balance between volumes and margins. Speaking on how we are looking at the overall demand supply scenario, the space vacated by China is very big and globally that has to be filled up; whether the capacity comes in India or somewhere else. So while there can be a redistribution of demand and supply but from overall supply and demand perspective, we do not see a scenario where supply significantly goes up. Number two the level of manufacturing in Western Europe is also going to go down because of higher energy prices and consequent to that we do not feel that we will not be able to utilize capacity. In fact as far as our international contracts are concerned, we signed new contract sometime in November-December and we have a good order book in international market.. Coming to your question on the feedstock import side, we explored other possibility of establishing the procurement relationship with Russia. Problem is the quality that we get currently in US Gulf coast, that quality is far superior than what is available in Russia. Number two, the logistics cost of bringing Russian material to India is even now very expensive and it will take away the gain that we have on the pricing side now. And there is one more practical problem which is, currently it is very difficult to get insurance on ships carrying Russian material. So with these key problems, as of now it looks tough and commercially also, it does not make much sense for us.

Sanjesh Jain: One follow-up on the first answer is it fair to assume the way you have explained our mix in terms of domestic and international is going through significant change in next two years because while domestic market is oversupplied export markets looks a very interesting positioning so is it fair to assume that a lot of incremental capacity will be sold in an export market. In such a scenario do you also see risk to the gross profit per kg because historically we have seen that export market has been at a slight discount so the domestic market do you see that also panning out along with it that is my first question. Second on the power side with all this power capacity coming up how much more power at a peak utilization that we can sell and incrementally how much more unit can be sold from the increased capacity and what is the capacity sold today so these are the two questions.

Raj Gupta: Last three, four years our margins in international markets have been almost equal to domestic margins. So sometimes domestic margins are high and sometimes international margins are high, but if you look at average margin generation, the domestic and international segment is almost in parity. So therefore, there is no reason for us to say that if sell more in international market, this is going to impact our blended margins. Coming to power generation side, like I said that we are generating more number of units per ton of carbon black production because of debottlenecking this year that we carried out and we believe that our quarterly run rate of power sale which was about 75, 76 million unit per quarter it has already increased 80 to 90 million unit per quarter. we believe we can gradually take it more towards 100 million units per quarter. So based on our current capacity (I am not considering Tamil Nadu capacity that will be separate), we can go up to maybe a run rate of about 100 million units a quarter.

Sanjesh Jain: So another 10% from here is what we can see upside in terms of the power unit sales.

Raj Gupta: Right.

Sanjesh Jain: One last question to sum up from all the earlier answer you said. So it is fair to assume that next year whatever has happened assuming the situations being stable we should be able to add 50000 metric tons on a standard carbon black and another 10000 metric tons on this specialty that will be a fair assumption.

Raj Gupta: Yes, it is true but like I said that maybe in couple of month time when we are through with our budgeting exercise, we will be in a better position to give the guidance . but it looks fairly reasonable.

Sanjesh Jain: And gross profit sustaining at these levels does not seems like a challenge

Raj Gupta: In a steady state level no we do not consider any challenge.

Sanjesh Jain: Got it. Thanks a lot sir all the questions and answer and best of luck for the coming quarters.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Good afternoon, sir. Thanks for the opportunity. Sir, what is our debt position as on December 2022 and in terms of long-term and short-term debt as our finance cost has risen sharply in Q3 and how do we project by March 2023.

Raj Gupta: Debt on standalone basis has not gone up.Iit remains where it was last year and it was around 684 Crores. out of that long-term was around 300 odd Crores rest was on the working capital side. Debt levels have not gone up but what has happened between March last year and now US FED rates have gone up by 425 basis points. Even repo rate has gone up by 225 basis points, from 4% to 6.25% and in spot market interest rates on the commercial paper etc., that has gone up even higher. So roughly on an average about 3% interest rate hike. That 3% interest rate on our debt rate of roughly 700 odd Crores converts into some 21 Crores for the full year. For the nine months that will come to around 16, 17 Crores and our increase in interest cost is less than that. So it is only the change in interest rate scenario which is reflecting on our borrowing cost. but per se the level of borrowings has not gone up while we have given a guidance that our debt maybe around 250 odd Crores more compared to last year but so far we have been able to manage with the same level of debt.

Dhiral Shah: So by March also we see this level of 700 Crores kind of a debt.

Raj Gupta: Yes, we feel it will be somewhere maybe 15, 20 Crores here and there but more or less it will be same. There is no significant change in debt profile that we are seeing.

Dhiral Shah: And on the Chennai plant particularly since we are almost ready with the two lines so how much volume we expect in current quarter from these two lines.

Raj Gupta: From current quarter whatever we said we are likely to start the trial runs etc. So maybe commercial quantity may not be much in the current year. Whatever we sell would be for getting the approval etc., from the customers. So no commercial impact on the that side.

Dhiral Shah: So from maybe Q1 we will see the commercialization.

Raj Gupta: Yes, because the plant is in the process of getting commissioned ; the lines will come up gradually and then we have to go through the process of approval from various customers. So therefore there will not be any commercial supply in the current quarter, small quantity maybe there but as we are not considering that.

Dhiral Shah: And if you look at our performance chemical business particularly and what I understand majority of our sales premium is spot basis. So what explains the decline in the volume.

Raj Gupta: Again like I said that the price points are different between quarter three and quarter four and this market is very fragmented market small, small customers making up good volumes. So for them this pricing is more lucrative. So other than that we do not see any structural change in the demand scenario.

Dhiral Shah: Thank you so much sir.

Moderator: Thank you. Next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Thank you for the opportunity. My question is on the performance chemical side. So, given that performance chemical the user industry for this is the industrial users, conveyers, agri, pipes, etc. So is there any number that you track to track the volumes of performing chemicals for our business, any industrial numbers.

Raj Gupta: Yes, so primarily construction industry like effect so this performance segment is more linked with construction industry. So generally when construction industry does well then there is better off take for this. But for us, I mean, our focus is on the holistic basis like on the overall capacity utilization. so whichever segment we see the opportunity, we try to iutilise the same. This performance portfolio has been created to get better flexibility in terms of our offering, so we created number higher end application in non-tyre rubber and non-rubber industrial applications. So it was to offer us flexibility to move in different kind of customer segment when we see change in market scenario. What is important for us is to ensure that we operate at a high-capacity utilization across different market scenario.

Radha: And lastly how many grades have we launched till now in specialty for nine months FY2023 in the next two year how much can you launch.

Raj Gupta: I will not give you a specific number, but every year we have been launching about 9, 10 grades. End of the year when we publish our annual reports, you will get the detailed reflection of what all we did.

Radha: Thank you sir and all the best.

Moderator: Thank you. Next question is from the line of Rohan from Nuvama. Please go ahead.

Rohan: Hi sir good morning and this is Rohan this side. Couple of questions. First is on our new capacity is commissioning so do you see that when we go in full commercialization from Q1 onwards maybe on Q2 do we see any margin pressure or realization pressure in the market or we think that we have already catered enough orders to meet this additional capacities.

Raj Gupta: We do not see any such challenge and like I said that this plant should have better efficiencies compared to all other plants. It will come up in a new technology. So overall efficiencies, cost wise and manufacturing wise should be better. So somewhere that should make up for, even if we have to maybe give away something on the margin side.So we do not see any impact of the market condition also.

Rohan: So is not that realization in the market will not be under pressure with that additional capacities coming in.

Raj Gupta: We do not see that; we do not feel so.

Rohan: Sir second on this the new capacities, so there also in terms of that the performance and the specialty black the output range will be similar or initially it will be firstly starting from the rubber black and then we going forward only we will be slowly moving to perform with any specialty.

Raj Gupta: You are talking about Tamil Nadu ?… But Tamil Nadu as of now we are only coming up with tyre and performance capacity. There will not be any specialty capacity in Tamil Nadu.

Rohan: So I was saying that how do you see that the capacities of the greenfield plant in Tamil Nadu will move forward towards performance and its specialty over next two years to three years, I mean, how it will move.

Raj Gupta: As of now our next phase of Specialty expansion would come up in Mundra, not in Tamil Nadu. We have to do some work around supply chain before we come up with specialty capacity in Tamil Nadu. Performance of course, we will produce in Chennai and again like I said that what is important is to ensure higher capacity utilization. so whatever opportunity is there in performance or in tyre, will try utilise the same.

Rohan: And you also mentioned that due to a steep correction in crude prices the formula link pricing which we have. So realization definitely will come down from Q4 onwards right. So do you see that our margins will definitely remain intact or because we generally have a EBITDA per kg margin intact, however you see that with the fall in prices there will be some impact on margin as well.

Raj Gupta: Like I said, movement in crude prices or raw material prices or even realization would not have any impact. I would not comment on fourth quarter margin but like I said that our guidance remains intact for next five years' time because of all the measures that we have taken. Gradually there will be an upward movement in our margin level.

Rohan: So in EBITDA per ton generally which we have in nine months roughly 17000.

Raj Gupta: In some quarters it will be less, some quarters it can be a little more, but like if you look in totality, I think we are on track.

Rohan: Okay sir that is it from my side thank you.

Moderator: Thank you. Next question is from the line of Peter from Ksema Wealth Management. Please go ahead.

Peter: Sir that Mundra plant the first line is commissioned or the second line is in process can you throw some light on that.

Raj Gupta: First line is in advance stage of construction. we believe that by end of current quarter we should be able to do the commission and the second line is about a year away. Sometime by March 2024 it will come up.

Peter: And sir, we missed the volume so can you give the volume split for domestic export and by the tyre specialty and performance.

Raj Gupta: It is there in our investor update, can you take it from there.

Peter: And sir, in terms of exports which are the top three, four export countries by market share for you and what is the demand outlook in those respective regions.

Raj Gupta: Well our exports are well spread so we have market presence in more than 45 countries now so no single country accounts for more than 7%, 8% of our volume. We are very strong in countries like Japan, Indonesia, Vietnam, in the SouthEast Asia side. On Europe side we are supplying to countries like UK, Netherland, Italy, France, Germany. It is well spread . And demand outlook like I said,domestic demand outlook is pretty encouraging even while Global GDP growth may not be very high..Some interesting thing that we noted is that while we all are talking about a slowdown in Europe and their GDP growth is going down, but if we go through some of the global auto and tyre industry reports, they indicate an uptick in the demand in the these geographies. So in Europe,the auto industry and tyre industry is estimated to grow at a high rate than what it was in the last year. From that perspective we expect a fairly stable kind of market scenario.

Peter: And sir, this as you have mentioned that this availability of low-cost product from Russia and including many other Indian players and global players have increased production so there seems to be oversupply so how much pricing pressure can we expect in FY2014 and FY2024 and 2025 so from the current levels how much can the price fall also given that growth prices are coming down.

Raj Gupta: See we have to understand one thing that Russian material is not new in the market when we look at the global markets. Russia in any case was producing and selling to to the western Europe. now because there are sanctions, they are trying to put their material in other markets including in India. What is important here is when people import in any country, there is a time lag between their placing of order and getting the material.

So I was talking about the time lag between one placing the order for imports and then eventually imports happening. Now last quarter, I mean, whichever customers placed order for Russian material, they will have to buy at a significantly higher price than the prevailing price. There is 15% - 17% price correction between last quarter and this quarter. So whether to import in such a fluctuating price scenario or to depend more on domestic supply. so this quarter therefore, in the first month we are seeing significantly lower imports in India.

Peter: So in terms of pricing pressure so going forward with from the current highs how much it can be price correct for next year.

Raj Gupta: We do not see any pricing pressure because from a global demand supply scenario we think there is a fair balance between demand and supply. The market is not over supplied and therefore it is unlikely that there would be pressure on the margin side. Pricing would be a reflection of change in crude scenario.

Peter: And sir you mentioned that there is a possibility to visit the Chennai plant when is that.

Raj Gupta: Sorry you will have to repeat.

Peter: You said that there is a possibility to visit the Chennai plant.

Raj Gupta: Yes, you can visit it I mean you would have to coordinate with our IR team for that.

Peter: And finally sir just last question so what is the Capex plan for FY2024 and 2025.

Raj Gupta: See, as our current Capex program is coming to an end, most of it I mean, there maybe one line left in Mundra after the current phase of expansion but then we have also acquired small pieces of land adjacent to our existing facilities. The whole idea is to do some brownfields in the interim. So in next two years FY2024 and 2025 we might undertake some brownfield expansion. But as of now that plan is not ready with us. So once we finalize that, then we will come back with more details on that but our current Capex program is coming to an end.

Peter: And sir what is the current capacity utilization you are on.

Raj Gupta: In last quarter we were around roughly 82%, 83%.

Peter: And this quarter sir.

Raj Gupta: This quarter it should be better.

Peter: Thank you so much sir, best of luck.

Moderator: Thank you. Next question is from the line of Varshit Shah from Envision Capital. Please go ahead.

Varshit Shah: Thank you for taking my question. Sir, what kind of investment should we need to in terms of ramping up our specialty utilization both in terms of R&D and adding newer grades.

Raj Gupta: On an average we are spending about 15 to 20 odd Crores on R&D every year and this spending is going to increase from here. We are adding more number of people and also we are undertaking some projects, not only on product side, but also on getting a new kind of a manufacturing process.

Varshit Shah: And any further expansions in terms of capacities.

Raj Gupta: Like I said currently we are running this greenfield. Then there is some brownfield expansion which is happening on specialty side and after that we intent to do some small-small brownfields in Mundra and Chennai. but as of now we have not finalized the plans. So when we finalize, we will come back to you.

Varshit Shah: Alright sir. Thank you for taking my question.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: What is the current Capex which is remaining to be spent from the current ongoing that is what we announced?

Raj Gupta: We have about roughly 100 odd Crores against our brownfield expansion and roughly about 250 odd Crores on Tamil Nadu. Now when I say 250 Crores, this also includes retention money which is released after the lag based on performance and all that. That is more from cash flow side than from pending orders perspective.

Sachin Kasera: My question is also moving from the cash flow side. So fair to assume that March will be take debt where do you see the debt picking out is it the December end debt that you mentioned or where do you see the debt picking out Q4, Q1…

Raj Gupta: We have taken 250 Crores worth of borrowing as part of project funding so it is more or less going to be in the same level at year end. Maybe some working capital, once we start operation. And on a standalone basis, we would be more or less where we were last year. I am talking about March 2022 versus March 2023. it will be more or less similar level.

Sachin Kasera: It is about more on the console side. So console side what is the level at which you see the debt will be out.

Raj Gupta: Console side it will be only that incremental Chennai, 250 Crores, more or less.

Sachin Kasera: But then once the line is commissioned we will also need some funds for working capital right.

Raj Gupta: That will not be significant. Chennai is just about 25% of our existing capacity. And on a standalone basis our total working capital borrowing is just about 400 odd Crores.

Sachin Kasera: So fair to assume that in FY2024 our console debt at the net or maybe even the net debt on a console basis in FY2024 end should be lower than what we end with FY2023.

Raj Gupta: I am not commenting on that because one thing we need to understand, our business and working capital requirement also depend largely on crude level. So tomorrow if crude comes down to 40 yes what we are saying possibly it will be that kind of a scenario. Crude moves to 120 then that will be a different kind of scenario.

Sachin Kasera: And even crude remains at the current level.

Raj Gupta: Yes, but there may be some borrowings in Chennai. if you look at leveraging ratio it is largely there even with that it would be around 0.3 what we are talking. There is hardly any leveraging I mean the consolidated level also and including working capital.

Sachin Kasera: And one thing on the return ratio sir you mentioned that on an average you are looking at Rs.1000 per ton EBITDA improvement on an average level is more so in that scenario how do you see your return on capital employed moving up in the next two, three years from the current levels.

Raj Gupta: See once we through with our Capex program then the ROCE should be somewhere closer to around 20%. Currently we are running a Capex program and therefore the return ratios are looking a little lower.

Sachin Kasera: Thank you.

Moderator: Thank you. Next question is from the line of Anik Mitra from Silvassa Research. Please go ahead.

Anik Mitra: Thank you for taking my question. Sir my most of the questions are answered. I have a question like what was the price of carbon black thing. Last quarter that is current scenario.

Raj Gupta: Last quarter average realization was about close to Rs.140000 and this quarter it will be around Rs.17000, Rs.18000 lower.

Anik Mitra: And sir, due to poor audio up on the quality I could not understand inventory situation if you can please repeat.

Raj Gupta: I could not hear properly.

Anik Mitra: Sir what is the inventory situation I actually missed out due to poor audio quality.

Raj Gupta: inventory as I said that we have not built up any significant inventory. So it is the line with usually what we retain. We have just build up about 3000, 4000 tons of extra inventory to support our volumes in current quarter.

Anik Mitra: Got it sir. Thank you so much.

Moderator: Thank you. Next follow up question is from the line of Aditya Khetan from SMIFS. Please go ahead.

Aditya Khetan: Sir continuing with the earlier participant question. Sir onto the inventory cycle how is the inventory with the tyre players right now so they are at the nominal level or still we have some sort of inventory in it.

Raj Gupta: You are talking about inventory level.

Aditya Khetan: Yes sir at the tyre players.

Raj Gupta: Sorry.

Aditya Khetan: Inventory position that the tyre players built.

Raj Gupta: See last quarter there was significant destocking at their end and while I do not have exact numbers how much quantity they are maintaining currently, but it is reflecting in the higher offtake. So they are trying to rebuild that.

Aditya Khetan: Sir one more question onto the Chennai plant. Sir the Chennai plant have a benefit of additional yield so can you explain like as compared to our four plants how much is the additional benefit of yield which we will get into the Chennai plant.

Raj Gupta: No I did not mentioned that. I said that in terms of number of parameters both on manufacturing side as well as on cost side, the plant should be more efficient because it is coming up in the latest industrial technology.

Aditya Khetan: Okay sir, got it.

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

Raj Gupta: Thank you Nirav, thank you Sanjesh. Thank you everyone.