"PCBL Limited
Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of PCBL hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" 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 Sir!

Sanjesh Jain: Thanks Mitchelle. Good afternoon everyone. Thank you for joining on PCBL Limited Q1 FY2023 Results Conference Call. We have PCBL management on call represented by Mr. Kaushik Roy, Managing Director, Mr. Raj Gupta, Chief Financial Officer, Mr. B. L. Chandak, Executive Director, and Mr. Pankaj Kedia, Vice President, Investor Relations. I would like to invite Mr. Chandak to initiate the call with his opening remarks post which we can have a Q&A session. Over to you Chandak Ji!

B. L. Chandak: Thank you Sanjesh. Good afternoon ladies and gentlemen and very warm welcome to all of you. I will quickly take you through the company updates and then open for questions thereafter.

Operating and financial performance of Q1 FY2023 is already in. PCBL reported operating and financial performance in this last quarter. PCBL reported sales volume of 109377 metric tonnes during the quarter with strong domestic sales volume of 77097 metric tonnes and international volume also picked up to the extent of 32280 metric tonnes.

If we look at the segment wise details tyre accounted for 77650 metric tonnes, performance chemicals recorded sale volume 21860 metric tonnes and specialty black sales volume of 9867 metric tonnes. Our revenue increased on year-on-year from 1004 Crores to 1409 Crores in Q1 FY2023. EBITDA increased by 27% to 205 Crores year-on-year. EBITDA per metric tonnes stood at 18,832. PAT stood at 126 Crores a jump of 21% year-on-year.

Power generation increased to 144 million units during the quarter with external sale volume of 86 million units. With rising demand for power in the country and consequent increase in power tariffs, PCBL's average realization against power sale jumped from Rs.2.65 kilowatt of unit to Rs.4.06 per kilowatt of unit year on year. In FY2022 we added two more CPP totaling around 15 megawatt capacity in Mundra and Palej that also helped us to have increase volume.

Despite steep increase in crude prices EBITDA per metric tonne improved on the back of conducive demand supply scenario and improved performance from power and facility volume. Now I request Kaushik Roy, our Managing Director to give you outlook on current market scenario in the remaining quarters for the year.

Kaushik Roy: Good afternoon everyone, Kaushik Roy here. Thank you Mr.Chandak for talking on the numbers . I will talk little about last quarter scenario and how it is looking like at this point of time and what is our feel going forward.

Last quarter as you know initially what we talked on the unrest **(inaudible) 04:35** between Ukraine and Russia, there is kind of opportunity for organizations like us because Russian supply was kind of restricted to rest of the world and that was actually the case, but eventually as the war continued, the high level of inflation now persisting for quite long because of food price increase because of the war and consequently what we feel that demand cycle has started getting impacted a bit globally. As you all know that in USA today the percentage of inflation percentage is about 9% I am talking about the month of June and Europe also close to 8.6%.

Now in this geographies such kind of high inflation is almost like unheard of kind of situation and since these are big consuming geographies… economies so therefore is bound to impact the demand of overall basis for the entire globe.

India scenario on the upside is close to again 7% inflation but India as a country has seen similar kind of inflation in the past, the ability to manage that kind of inflation is slightly better compared to the world, but as I also said that India is today a part of the integrated global market so therefore at some point of time India will also start getting impacted and we have already started feeling the same pain in this quarter.

The point I am trying to make that last quarter we got some advantage and we spotted some opportunities because of impact on Russian supply but slowly the situation is reversing now because of persistent high inflation coupled with high interest in many countries and we are seeing the overall demand globally coming down, so that is a bit of botheration for us at this point of time.

We need to find solutions for this. We need to be extremely agile to look at our ability to move from one geography to another geography keeping in mind the demand scenario in different geographies, we need to be extremely agile in terms of our product portfolio moving between tires and performance chemical and specialty chemical of course is kind of standalone so the ability has to be very high, the agility has to be very high in that area as well. So this is a situation we are facing in recent time.

Last quarter was good. This quarter so far is looking alright. It is under control. In India on the automobile industry is doing more or less decently. There is no sharp growth but more or less steady at this point of time. Tyre companies were facing a bit of problem because of the high raw material costs as their inability to pass on to their customers so they are facing some challenges but they are also quite optimistic. We have been talking to some of them, they are also quite optimistic that going forward the crude situation will improve and consequently the cost structure will be much more conducive and that will help their cause and of course which in turn will help us all as well.

As you all know that currently our portfolio, we are having roughly about 64% to 65% with tyre and rest is between performance chemicals and specialty chemicals. I will say as an organization we have been working on this portfolio for quite some time through our R&D initiative and over a period of time if we manage to bring some kind of balance, we are not too dependent on any particular sector which is pretty well spread, so that's the level of confidence that going forward also we will be able to manage the show **(inaudible)** in the organization as a whole.

Talking about our focus areas in organization, I will highlight some of the points which is critical for us as an organization. We feel that we are on a very strong wicket to look for a very fast growth and in line with that as you all know that we are coming up with Greenfield Chennai plant, which is likely to go on steam by end of this calendar year-December 2022, our target for commissioning, give and take, we are more or less on time. We are responding to external factors which are influencing the progress so broadly on the control and we are hopeful that by the end of this calendar year, we will be ready to commission the plant and thereafter some time will be required for stabilization to take care of the teething problems, trials for our customers etc, and eventually it should be running commercially full-fledged, so that is on the Greenfield side.

On the Brownfield side as part of our fast growth strategy, Mundra expansion for specialty is going on, phase one of that is going on right now. So out of two lines one line is under construction at this point of time and we are expecting that the line will be ready for commissioning by the end of March 2023 which is financial year 2023 end actually and thereafter whatever time is required for trials and all that will be needed.

With this, the capacity of specialty also will go up from the level of 72000 MT currently and after phase one and phase two of Mundra it will become 112,000. Our current power capacity is 91 megawatt another 7 megawatt power plant is under construction at this point of time in Kochi which should be ready in another couple of months' time for commissioning that will take the power capacity to 98 megawatt. The second strategy is specialty chemical, the focus of the organization on the specialty chemical. I talked about the growth which is through the Brownfield in Mundra currently and we will be looking for further opportunities, but the biggest focus area for specialty today is initiated through research and development.

We have two research and development centers as all of you know one is India outskirt of Baroda and one is Belgium, outskirt of Brussel and between this two R&D sector and technology team we have roughly about 60 scientists and engineers and chemists they are working coming out with newer products, newer technologies for processing and some fundamental initiatives and also we are working on usage of raw material, usage of oil, varied kind of oil for different application. Second focus area as I said as an organization is a specialty chemical area.

Third one is international market. As we are adding capacity it is also important that we spread our wings adequately. Currently we are roughly doing about close to30% of our production is going outside of India and international markets we are representing number of countries as well as geographies and as with time we will be increasing this rate further we will be going further up in terms of our reach and therefore we are focusing not in international market on the service network, on putting the supply chain block across the world in terms of having the warehousing system in terms of having decanting system, and so on so that we can supply to our customers on-time, just in time kind of delivery that we can adopt that is the objective.

Supply feels like it is virtual plant supply, our manufacturing unit is not there but our product is available next door too. It gives the feeling of virtual plant and the third is the international market we are focusing a lot on people leadership in two areas particularly one is on the technological area, we will have our own people from those countries and they can connect with the customers, connect in their own language, they can converse with the people on their own language and the second area is people from the sales and marketing side.

From the people leadership side on international market, we have been focusing on technological side and sales and marketing side. Fourth focus area for the organization is digitization. Now when I talk about digitization, we started taking some baby steps a few years back in different areas, different function so there are things like document management system, things like production planning, automated production planning things like managing documents of import and export these are already done but this was not really a comprehensive approach, it was more like looking at different processes and trying to make them automated and make them more efficient which we are going on.

As an organization the first major compressive target is putting the Chennai plant as per industry 4.0 standards. As I mentioned last time also Industry 4.0 is the latest standard of manufacturing globally. It actually means it is closed loop feedback system, which is a system we will pick up feedback from the running plant and incase there is a problem in the running condition it will quickly analyze and through that control system that problem will be sorted out, so close loop feedback system and the analysis is being done through Artificial Intelligence and Data Analysis. We are hopeful that it will lead to benefit in terms of profitability because we will be able to manage our quality system better. We will be able to improve the reliability of our plants. We will be able to possibly improve productivity and yield as well, but these are expectations and based on calculation on the paper we feel it is possible. We will really get to have the feel once the plant is commissioned and stabilized and then we will see over a period of time how the benefit is coming to us. Once we are sure about the benefit on industry 4.0, we will also deploy it in our other plants.

So that is finally a major focus area for us, from a competitive point of view, industry 4.0 for manufacturing and manufacturing being the backbone you can understand this is the most critical journey from our point of view and as far as digitization is concerned. There is another critical focus area for us and the final one from my side is ESG and sustainability. I think as a responsible organization as well as responsible corporate this is one initiative we needed to take. We started this journey about three years back we took some baby steps very small step we have taken but now I think that it has picked up. We have collaborated with one of the leading consultants in the country and there are identified material targets to work on. We have taken a defined target within a defined timeline for achievement to be achieved and our second sustainability report was issued about 4 to 5 months back, it was posted on our website also in case any of you want to see you can definitely have a look. So this is about the focus areas of the organization.

We will continue to grow that is the primary thing. We will continue to focus on the portfolio more focus on R&D driven, specialty side as I said, international market, digitization and finally ESG and sustainability. With this I will open the session for Q&A and let us go for it.

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 Limited. Please go ahead.

Aditya Khetan: Thank you for the opportunity. Sir my first question is on the China so what is the current situation so that 2 million tonnes of shut down in China is still a continuing problem or the capacities are coming back?

Kaushik Roy: Well, there is no major change per se in terms of Chinese capacity. I think you are aware of that. Over a period of last few years because of different reasons one reason is raw material availability and the other reason was environmental challenges. Lot of consolidation happened in China in carbon black industry like many other industries in China and consequently as we understand but there is no official report on this, let me qualify here. As I understand almost 25 to 30% of the capacity is actually not available for production today and to our understanding the situation remains more or less same. We also understand in addition to that there is lack of availability raw material is a further issue in terms of availability of raw material so that is causing further pain for them and their raw material prices have also gone up substantially so some of the players over there they are trying to see if they can switch from CBO to coal based oil to crude based oil that is what their target is some of them are working I believe on that. That is the situation in China. There is no major change in terms of supply side from China market. In view of this, what we feel there is no major change from the point of view of supply side from China.

Aditya Khetan: Just a followup was asking to China, consider tomorrow if the crude prices fall by 20% to 25% now considering the Chinese capacity is still trading, so can we make a statement that the carbon black prices would not fall to that extent and we could stabilize somewhere around Rs.110 to Rs.115 per kilo so considering if the crude prices fall by 20% and carbon black prices would not fall to that extent. Can we make our statement that the China shutdown which is going on?

Kaushik Roy: I think what you are saying is kind of hypothesis**.** It cannot be directly linked to raw material price or something like that because there is also something called supply demand situation in the market. The size of the product is also driven by supply demand situation in the market. Of course cost does play a role, but that cannot be the final deciding factor so it is very hypothetical question I will say. So can't really put a figure but of course if costs comes down there will be some reduction on that on the price of carbon black for sure but again there is another major factor or parameter which is supply demand so at that point of time what is he supply demand situation we need to keep that in mind as well so that is what I will say to your question.

Aditya Khetan: I will join back in the queue.

Moderator: The next question is from the line of Dhaval Shah from Girik capital**.** Please go ahead.

Dhaval Shah: Great set of numbers. Sir my only question so our spreads and our EBITDA per tonnes has been one of the best in the last four years, I would like to understand basis on last concall we did not expect such great improvement in the performance in this quarter so has there been any sort of one off or what has led to this massive expansion in our spreads in EBITDA per kg? Thank you.

Raj Gupta: If my understanding is correct you are asking current margin profile is not sustainable is that your question?

Dhaval Shah: I mean I was just looking at your numbers in last five years we have never done such high EBITDA per kilo or gross profit per kilo and basis our last concall so we did not feel any sort of large increase in spread which you would lead to such high profitability so is there any one off item in the current quarter which has led to such high profitability which I would like to understand more where such great strong numbers have come from and how do you see them going forward?

Raj Gupta: Well, there is no one off item as such but like Mr. Roy was talking about the tight supply situation currently on back of this Eastern Europe geopolitical crisis so there was an opportunity in the market and we are very agile organization and if there is an opportunity we will ensure that we utilize this. The current quarter's margins are reflection of above changes. Our long term guidance remains in line with what we have communicated last quarter and whatever improvement happens that will be more gradual and that will reflect more gradually over a period of next four to five years because of better operating leverage, because of better operating efficiencies and also because of product portfolio improvement. So these kind of margin are reflective of immediate opportunity in the market. I would not say we should take this margin as base.

Dhaval Shah: Understood, so if now the geopolitical problem has given us a benefit so was the benefit in the spot prices in the domestic market or export because our export volumes are at four quarter or five quarter low right now for the Q1 2023 so basically we gained on pricing in the export market or we gained in pricing in the domestic market?

Raj Gupta: This is ultimately global market. I am not saying that we are selling more in global market but I am saying because the market is global so when price increase in one market, automatically it also reflects on the pricing in other markets and generally we are (inaudible) the margins, pricing and margins in those case, so when global market margins are better or the realization is better, typically domestic market margins also improve with them so all around I think it is a good situation what was there in the previous quarter.

Dhaval Shah: As we speak today how is the situation, is it similar to the last quarter or those shorter opportunities are gone?

Raj Gupta: I would say, see we do not give any forward guidance. I would say that it is an extremely volatile and uncertain market so it is one day at a time, but we can only give you assurance that we are very agile organization. In past also we have withstood a lot of headwinds , like the situation created by pandemic, geopolitical crisis and all, and we do not get overwhelmed by any situation. So if there is any situation, if there is headwind we will ensure that we withstand that and if there are tailwinds then we ensure that we take advantage from the opportunity.

Dhaval Shah: Sir now given crude has started correcting, I would not say falling. Historically have you seen that when the crude starts correcting the customer become little cautious in their purchase because now the prices are on a downward trend, the raw material prices are on downward trend, how is the customer behavior?

Kaushik Roy: You are right. If crude starts falling naturally customers will eventually expect there will be a correction in the price and therefore chances are high what you are saying, it cannot be ruled out, but the cost plus pretty as Mr. Raj Gupta was saying just now it is more about our agility, the ability to move from one product to another product, one geography to another geography. One customer to another customer shifting volume depending on the spot opportunity so we have to be extremely agile to conquer those kinds of things. I mean these are normal thing part of any business, it is nothing any unusual so if you stay agile if you stay focused and continuously analyze and scan the situation and still we will be able to find out solution for that.

Dhaval Shah: Sir this drop in oil prices would have definitely also led to drop in our raw material prices and if we reflect with a lag in our P&L currently is there a fall which is happening in our carbon black feedstock and if it stays at current level in which quarter will you see the impact?

Kaushik Roy: See which impact?

Dhaval Shah: The fall in CFS, the carbon black feedstock or raw material so the fall in this prices with the fall in oil prices, has it happened and in which quarter shall we see the impact on that?

Kaushik Roy: Impact in terms of cost reduction you are saying?

Dhaval Shah: Yes the raw material cost reduction?

Kaushik Roy: I will say one thing here in between oil was at about 120 plus level per barrel, oil I am talking about crude. It came down below 100 at one point. It was 97 or 95 it came down to and there was expectation when Mr. Biden, the American President he was visiting Saudi

Arabia, so Saudi Arabia will increase production of oil and subsequently the oil prices will go down further but unfortunately Mr. Biden could not get any commitment from Saudi Arabia for increase of production and what happened after that immediately the oil prices went up again. Today as we speak it was 107 per barrel the blend price so it is quite volatile, couple of days it is coming down and then again it is going back. It may not reflect that much in our buying but if the trend wise it is downward of course it will reflect typically after two to three months time typically that is the kind of lead time because oil primarily we got it from USA as you know there is lead time, there is selling time, there is storage all the things are involved so typically it is two to three months time but all ups and downs it will be difficult to capture that road.

Dhaval Shah: Okay understood Sir and how is the freight cost. Will you see any reduction there because that was also troubling us?

Kaushik Roy: Freight cost the reduction well as of today I will say the continuous upward movement what we have seen a couple of quarters back that has become little bit soft now. It is more of plateauing at this point of time whether going forward it will come down or not we have to wait for some more time meanwhile unfortunately because of this geopolitical conflict it has gone little bit on the other direction so again two things are playing there, one is supply demand situation availability of feed, container, etc., and on the other side the cost of fuel, so it is combination of both, so one has improved a bit which supply demand availability in terms of container ship. Unfortunately the oil price is going to haywire. So we have to wait and watch. I think the worst situation possibly it has gone hopefully it will not worsen from here.

Dhaval Shah: Thank you Sir and that was my question.

Moderator: Thank you. The next question is from the line of Dharshil Zaveri from Crown Capital. Please go ahead.

Dharshil Zaveri: First of all congratulations on a great set of results. I am bit new to the company so I would just like to ask how do we see the demand going further and as you said we might face some demand issues in the next quarter so what should I assume as the base quarter and margins for current year? That is my first question.

Kaushik Roy: Demand point of view when you look at I will say the last quarter the demand was strong because war between Ukraine and Russia started and there was constraint in supply from Russian side, many companies many industries with all of them we got benefit but unfortunately as the war gets prolonged we are clearly seeing due to high oil cost inflation is going up, interest rates are high and now unfortunately that has started impacting the overall demand of many products including power plants so this quarter we have feeling that there will some challenge from demand side having said that I think India is little better off not completely insulated of course from the global market but little better off with respect to the global market. In the opening remark I mentioned that in USA and Europe inflationary rate is as high as 9% which is kind of record for them in so many years so there are challenges definitely on the demand side. We need to find out solutions for that and as I mentioned earlier also the agility is the key to conquer this kind of situation.

Dharshil Zaveri: Correct Sir so maybe the recent quarter might be a bit challenging, but overall for the full year could we guide something and my second question is the new capacities will kick in completely next year or how much time do we take in the trial and what kind of additional revenue can we expect from our new capacities?

Kaushik Roy: In terms of giving guidance for this quarter we will not prefer to do that because we rather prefer to tell you that we will face the challenges and we are confident that we will overcome those challenges. It is looking a bit challenging but we are sure that we will able to work on that to be rest assured on that, number one. Number two on the new capacity of carbon black in Chennai after it is commissioned I guess it will take some time for stabilization of the plant there will be some initial hiccups. I am sure there will be some problem and once we stabilize then we will start trials with our customers with our products and since it is primarily a rubber plant and we have regular supplies to many big rubber companies across the globe, tire companies and other consumer across the globe. It may not take much time for us because our product is pretty well proven, well accepted across the globe in terms of quality, so I am hopeful that within a period of time we should be able to get approvals from most of the customer. Three to four months time once it is stabilized and then thereafter a full fledgedcommercial production can go on.

Dharshil Zaveri: Sir as this plant commences on December 31 so we will be able to see revenue maybe flow in from FY2024 will that be a fair assumption and what kind of an asset turn would we expect from this additional capacity?

Kaushik Roy: Well, I think what you said is right possibly next financial year we will be seeing benefit out of the particular plant so we should be seeing that benefits coming in then going up almost in terms of capacity almost 30% capacity will be going up so consequently with reflection in revenue as profitability at that point of time.

Dharshil Zaveri: Thank you so much. That answers all my questions. Thank you so much Sir and all the best.

Moderator: The next question is from the line of Riya from Aequitas Investments. Please go ahead.

Riya: My question is answered. Thank you.

Moderator: The next question from the line of Abhijeet Bora from Sharekhan by BNP Paribas. Please go ahead.

Abhijeet Bora: Good afternoon Sir and congratulations on the good set of numbers. Sir my question in the last quarter the commentary was quite optimistic in terms of both demand and also in terms of the margins because of the geopolitical issues. You mentioned that because of the supply concern we would see a multiyear growth opportunity for Indian carbon black manufacturer. Now I think that the commentary has been cautiously optimistic in terms of you to may be challenging inflation and the export markets especially so like are we seeing any reversal in overall demand environment and that can impact our utilization of the new capacity which is coming up or still we remain confident that we ramp up faster given capacity closures in China and also the concern in Europe?

Kaushik Roy: I mean you have rightly pointed out last quarter commentary of course we were much more optimistic and positive because initially there was some silver lining and Russian supplies were getting impacted and therefore it was opportunity for us and you are seeing the reflection of that right in terms of numbers and etc. Now unfortunately the war is getting prolonged and because of this inflation and other things there are a bit of concern but I think they are quite optimistic but cautious at the same time as I mentioned and the fundamental strategy in this scenario is basically agility, right kind of strategy and extreme agility so we feel we will be able to sail through without any major problem. As regards Chennai plant it is going on track, absolutely on time, the progress is absolutely as per the timelines what we have decided. We are not too concerned about that and I think generally what I will say do not get to disturbed by one quarter or one month etc., what we talked about that we remain and we stick to that that we remain optimistic on a long-term guidance so one quarter here and one quarter there does not really matter and even in this quarter we are quite optimistic. I will not say we are not optimistic but as you rightly said we are cautious at the same time but our long term guidance remain same that we remain optimistic and we stay focused on our goal.

Abhijeet Bora: Secondly I think you guidance for 35,000 to 40,000 kind of incremental volume in FY2023 given the inflationary pressures would will be able to achieve the incremental volume numbers and for next year also you have added for 50,000 incremental volume and 30% utilization on the new capacity so any concerns on these numbers or these still remain to be factored into the assumption?

Kaushik Roy: I think what indication we have given there will be some growth in terms of volume. We will stick to that barring some natural calamities here and there. Just to share with you we have recently seen very, very heavy rain in Gujarat, heavy rain in Gujarat which led to flood situation and we have two major plants in Gujarat as all of you know one in Mundra, one in Palej and production got affected to some extent not majorly but some impact was there so this kind of different things happen but by and large we will be on growth journey for sure exact number plus and minuses may happen but again as I said it will continue to grow.

Abhijeet Bora: Sir lastly on the margin front we did close to around 18,000 per tonnes of margin, so in Q2 and also for the full year do we see the sustainable though the demand is lower but still the concern on supply side remains so like the lower demand can be offset by higher margins?

Kaushik Roy: I think this was already discussed and Mr. Raj Gupta has responded to this that do not take at one quarter particular margin as benchmark and naturally Q1 margins were little higher, EBITDA margin was quite high per tonne so do not go by one quarter's margin, look at long term guidance and I think we have already given the long term guidance and that remains same that will be steadily growing on the margin side by virtue of better operation, more efficient operation, richer portfolio rather, our trade across the globe, international markets as well as domestic market and combination of everything and that is a continuous process, a structural change. In between there might be some spot opportunity for us in that quarter we will grab that opportunity. As an agile organization we will definitely grab that opportunity but do not get carried away with those kinds of spot opportunities and do not please take that as benchmark in terms of profitability but long term guidance remains strong we continue to grow in terms of profitability as well.

Abhijeet Bora: Last one clarification on the margin front that commodity margin assuming at 10,000 around that kind of level, you mentioned about the change in the product portfolio, efficiency so what rise in the share of this specialty segment, so what incremental margin on a sustainable basis we can build into assumption can you guide on that part?

Kaushik Roy: Just one clarification I must give you here there is nothing called commodity in our business. The material which goes to tyre, are also equally technically high end products. It is highly engineered product I would say. From our point of view as an organization we really do not call them commodity grade, we rather call them as foundation grade and then of course there are further valua added grades like performance chemical grade or specialty chemical grade for different application so it is more about application. We have got foundation grade for tyre application. We have got performance grade and specialty grades for different applications like plastic, paints, ink, batteries all those kinds of things, so there is nothing called commodity in our product. In our product everything is equally important even so-called foundation grade also give a different profit margin to us. Figures possible guidance I am not sure whether we can give it. I will request our CFO to give some idea.

Raj Gupta: Abhijeet as a policy we do not give any guidance or numbers but I would just give you an indication so if you look at how our margins profile has improved in last five years over previous five year, I think in the next five years possibly there can be similar kind of change in our margin profile.. that is how we see it.

Abhijeet Bora: Thank you Sir.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: Good afternoon Mr. Roy and Raj and congratulation. Would you just take us through our R&D approach and how do we see with specialty capacity increasing and how do we see new product and how are the new product vis-à-vis what earlier we were doing can start contributing and overall and how is the profitability of the new product vis-à-vis old?

Kaushik Roy: Typically for us for example about 10 years back our portfolio was such that 95% of our product used to go to tyre companies so primarily we are a raw material supplier for tyre companies with those fundamental grades which we just talked about the foundation grade, the fundamental grade and then we thought it is important that we focus on our profitability improvement and therefore there was need to get into other segments like performance chemical and specialty chemical with those applications which I just mentioned. Now that obviously needed lot of focus on the R&D side and first R&D center came about in India about five years back in Baroda, second one came up about two and half years in Belgium and as I mentioned between this two R&D centers the technology function etc., we have roughly about 60 odd scientists and engineers and chemist working on this. We have got four verticals in R&D. One vertical focuses on developing new product. It may be absolutely new product or it may be new for us but cannot be new for the market per se every one of our competitors are making advance product we did not have in portfolio so therefore it was new product. The one vertical is working on new product. Raw material is a big thing for us and one vertical is working on raw material or oil engineering as we call it so oil related lot of research is going at our end for use of different oil, different tyres, different application and all carbon black are not made for the same oil. There are different oil, different applications so there is oil engineering in one vertical where the scientist are focusing on. Our fundamental research where we are looking at absolutely new mechanism or new method of making carbon black something completely different but these are pure play fundamental research. The fundamental research as you can understand will take its own time. I will give you one example. We are working on plasma reaction technology. We are trying to use plasma reaction as a technology in our reactor to produce carbon black, so one focus area so this is on the fundamental research side and the fourth one is called post production treatment. Now once we produce carbon block then you go for certain treatment of that carbon black to get certain properties to achieve certain properties so one particular vertical is working on post treatment of carbon black or post treatment of different chemical so this is the fourth vertical in R&D center so these are the four verticaals that is how we are approaching the whole journey of R&D.

Bharat Sheth: How do we get what stage we are I mean getting the benefit and when do we expect certain one is the new product introduction timeline and what we introduce last five year and how do we see over next five years as well as this oil engineering and plasma. What kind of benefit overall company will have?

Kaushik Roy: I think you need to study result of PCBL, if you go back 10 years and you see the numbers today you can see what is the impact of that. As I mentioned 10 years back it was about 95% product it used to go to tyre companies currently it is just about 54% which goes to tyre company balance 35% is between performance chemical and specialty chemical. In the specialty chemical our share in the market was zero. As we speak in the global market we are the fourth largest player with close to almost 10% of the global market share and consequently of course the numbers are reflective of that. If you study the numbers for PCBL over the period of 10 years I am sure you will get the answer yourself.

Bharat Sheth: How do you see your aspiration, without committing anything but aspiration for next five years?

Kaushik Roy: I think Raj has already mentioned that that our aspiration is for last five years the kind of improvement we have seen in terms of margin we should be seeing similar kind of margin improvement going forward in next five years and that will happen because of many initiatives and one major one is obviously diversification of product portfolio.

Bharat Sheth: Okay and this oil engineering journey where do we are and how do we see that?

Kaushik Roy: I cannot explain on phone what is the meaning of oil engineering and what is the journey, you have to come down and we can have separate discussion on that

B.L. Chandak: And whenever we see something we will come back and speak to you.

Bharat Sheth: Thank you very much and all the best.

Moderator: The next question is from the line of Radha Agarwalla from B&K Securities. Please go ahead.

Radha Agarwalla: Thank you for the opportunity and congratulations on good set of numbers. Sir my question was on the capex side. So given that both Chennai and the Mundra plant work in both the plants are expected to be completed by FY2023 and also we have the second phase of Mundra plant capacity expansion so on back of this what could be the expected capex number for FY2023, 2024, and 2025?

Raj Gupta: 2023 possibly it will be between 900 Crores and 1000 Crores and based on the current capex pipeline, FY2024 will be around 200 Crores to 250 Crores. But if we come up with any new Greenfield or Brownfield plan, then for 2024 the overall capex might increase.

Radha Agarwalla: For FY2025, if you can**?**

Raj Gupta: As of now we do not have visibility around 2025 because that will depend on what kind of capacity we are pursuing. Our existing projects will be through by end of FY2024.

Radha Agarwalla: Okay the numbers for FY2024 does it contain the second phase of Mundra expansion or the numbers that you gave 200 Crores to 250 Crores?

Raj Gupta: Yes it does include second phase of Mundra. It does include second phase of Mundra. FY2024 numbers does include second phase of Mundra.

Moderator: The next question is from the line of Santosh Kumar Keshri from Keshri Wealth. Please go ahead.

Santosh Kumar: Thank you for giving me an opportunity. I had one question like we can see there is global fall in automobile demand. Today we got the news that UK has a fall of 15% in the car demand so let us say that there is recession in USA and it is little deep compared to what we are expecting today so how is it going to affect our production that is the first question and second question is a very small, if you can give me a split of your specialty sales and non-specialty sales?

Raj Gupta: So Santosh there has been periods of demand softness earlier also like 2020 was not a good year. I am talking about the year before COVID but that is where I think the organization's own capability comes into play and our MD was talking about laying down our infrastructure globally getting up decanting stations, warehouses, investing in our own supply chain and therefore our current dependence is not on any single geography. Again if there is softness of demand in some part of the world, we have the agility to move from one geography to another, to change our product portfolio so that if one type of product, the demand is getting impacted, then you can create new type of product and sell. I think that is about agility of the company and tough situations also in past we have been able to ensure higher capacity utilization so we feel pretty confident that capacity utilization should not be a challenge. Of course, there will be periods when the supply side or the demand situation is good. In those periods the margin profile suddenly spikes up in other periods there is an impact on the other side but I do not think capacity utilization is going to be much of challenge for us. Our global market share is still very low so I think we can increase our market share also.

Santosh Kumar: That is what the news in the market right. The governments are predicting US recession at least?

Kaushik Roy: There is a fear. We are not sure whether it will lead to eventually a major recession like what we had seen in the year 2008 which got triggered because of Lehman Brothers issue so let us hope for the best. Why should be pessimistic about the whole thing. Let us think positive and I think Raj has explained on the agility part and let us hope for the best and I think your second question was about specialty share and all, roughly about 65% is tyre and rest goes into performance chemical and specialty chemical.

Santosh Kumar: Thank you so much.

Moderator: The next question is from the line of Nagraj Chandrasekar from Emerge Capital. Please go ahead.

Nagraj Chandrasekar: Thank you. Just going through the commentary from Cabot or **(inaudible) 56:59 Orion, Tokai** it looks like nobody is interested in adding capacity on the tyre side of the business. It is more, Cabot talking about capacity for EV battery, anodes and other specialty chemicals and so on and so forth the others as well. You are also saying Russian capacity is out even finding its way to any markets and Chinese capacity is also not come back yet could you see a scenario, there was talking about $2000 capex cost per ton all in for the capacity in the west including all environmental norms in place whereas we built this Chennai plant for something like $800 I think roughly ballpark per ton effective capacity. Could you see a scenario of prolonged shortness over a few years especially if you see after two negative years say 2019 and 2020, CY. Okay growth in 2021 positive demand growth for tyre volumes in India in the next few years because here there are more of new car driven market whereas global markets even if you have decline 10% to 20% decline in new car sales demand is mostly replacement driven so the actual hit to carbon black demand would not be as steep and with no capacity really getting added you might not have that much slack room in the market which is what a lot of these guys are also saying in the commentary so wanted to just get your view in this?

Kaushik Roy: We have little bit of different perspective. As you know we are the leader in terms of Indian market. We are the largest player in the Indian market and we have certain responsibility and the markets you talked about and the players you talked about a lot of them are very active say in European market or US market and those market are actually extremely saturated today from the point of view of automobile as well as from the point of view of tyre companies therefore whereas Indian market is not saturated it is still evolving. It is a growing market. The economic situation is quite different in India, different from these countries and this geography so we do expect a substantial growth of automobile in Indian market and consequently that should also grow and therefore Indian point of view we feel that there will be scope for improvement, scope for growth even for regular rubber black having said that in the beginning itself I mentioned that as an organization we started focusing on performance chemical and specialty chemicals a few years back, 5 to 6 years back and that led to a situation where today we stand about 65% goes to tyre and the rest goes into performance and specialty chemicals so that really shows our intention that we are focusing in that area as well. At the same time we do not want to vacate the growing tyre market. We do not want to vacate that and I think it is responsibility as well. We are the largest player we are the leader here because of that we cannot afford to do that also so Our approach will be slightly different vis-à-vis some of the names you have just taken, so that will be my answer to your question.

Nagraj Chandrasekar: Supply isn't a big constraint on the tyre supply globally, the tyre carbon black supply?

Kaushik Roy: I think considering the sense, the tyres are getting manufactured getting produced so naturally they will be requiring carbon black, and if you go back and look into little more details of tyre and automobile, this will actually either they are black or they will be growing in Europe and USA and these are actually growing in Asia region. Asia is becoming the manufacturing hub which includes obviously India on tyre and automobile so if you look at Asia perspective and India perspective definitely there is an opportunity for growth even in tyres so therefore for us tire related raw material and therefore carbon black but I am not saying at the same time that there is no scope for specialty of course there is and that is how we have grown in last five years and as I said that we are the fourth largest globally today in the specialty side. So it is a good news for us from both angles from specialty as well as for tyre.

Nagraj Chandrasekar: Thank you.

Moderator: Ladies and gentlemen this will be the last question from today which is from the line of Anubhav Sahu from McPro Research. Please go ahead.

Anubhav Sahu: Thanks for the opportunity. Couple of questions; one is if you look at the domestic markets I wanted to understand, how are we placed in terms of market share. I understand that import intensity from China has come down over the years but if you exclude that factor of imports, how many domestic manufacturers, how has the market share been for us in the last few quarters?

Kaushik Roy: Market share of us in the domestic market are you saying that?

Anubhav Sahu: In the carbon black market yes.

Raj Gupta: Your question is about our share of domestic carbon black market?

Anubhav Sahu: Yes our share of domestic carbon black market exactly. Say for the horizon on the last two years how has it been and two years back how was it and how is it now?

Kaushik Roy: As I mentioned just a while back that we are the largest player in Indian market today and percentage share honestly varies from time to time because there are new players then at time we decide to export more etc., but definitely we are steadily at one-third level and above.

Anubhav Sahu: On the capacity expansion, I understand that Greenfield and Brownfield would be projects will come up in Q3 from next fiscal, in the last call you also pointed towards some efficiency gains for this fiscal year for increasing production volume are we on track for that or given the demand situation that is not the case right now?

Kaushik Roy: Efficiency you are talking about?

Anubhav Sahu: I mean I think you were alluding to adding some capacity through efficiency gains around 30,000 tons or something in the fiscal?

Kaushik Roy: Are you talking about this year we are adding 30,000 or something. We are not adding. There is no new capacity coming. We are excluding our efficiency on productivity and we are expecting some additional volume coming in over last year and therefore we are targeting this additional volume but hopefully there is no major natural calamity etc. Like as I mentioned in Gujarat we had some issue heavy rain and flood like situation other than that we should be seeing some improvement some upside on the volume side also in this year over last year.

Anubhav Sahu: That weight should be something around 30,000 tonnes is that would be a right figure I am looking at?

Kaushik Roy: I do not know what those calamity or situation we will face going forward. It is difficult to give a number but I think intention is clear that we want to grow and grow fast.

Anubhav Sahu: Okay got it and Sir last call you also pointed towards you were waiting for some customer approvals for these specialty grades which could have added up something around 10,000 tonnes of sales volume for this fiscal so any colour on that any views on that?

Kaushik Roy: It is a continuous process because on continuous basis we are producing some product we are coming out with newer products and going for approval and it is on track and our target remains. We talked about 10,000 tonnes of quantity of specialty this year and our target remains and we are on track as already.

Moderator: The management has decided to take one more question which is from the line of Saurabh Mehta from East Lane Capital. Please go ahead.

Saurabh Mehta: Sir my question is slightly repetitive, but I wanted to know Sir the EBITDA per tonne if you look at the four to five quarter has been very volatile so could you share what part of volumes which we are selling in the spot market are really affecting or bringing this volatility in EBITDA per tonne annually?

Raj Gupta: Usually Saurabh we do about roughly 27-28% of our volumes in spot market and that remains sensitive to demand supply situation and if you look at our performance …. if you dont look at on a quarterly basis, but if you look at year on year journey last five to six years, you will see gradual improvement in our margin profile. So periodical volatility will be there across all businesses not only in our industry, but I think the whole idea is that whether we are improving our business structurally so that our margins keeps on improving and I think thats the guidance we have given. Over a period of long time maybe four to five years one should look at how our margins have improved. I think that will be a good reflection of the real improvement in the efficiency.

Saurabh Mehta: I said 20% volumes the slide into the performance chemical segment?

Raj Gupta: This is both. I mean tyre largely remains large account for us and there is a pricing formula so mostly you can say it is mostly the performance segment.

Saurabh Mehta: The second question is on specialty basically we used to have this aspiration for high end application in the specialty segment so what is the progress there and is there any EV battery application which few of our peers have developed. Is there something on which we are also working if you can share some details about that?

Raj Gupta: The progress in specialty has been very satisfactory as you said. Whatever portfolio today we have, we have developed in the last seven years. We have started almost with zero and today slightly more than 9% of our volumes are coming from this segment. And it is not only the volumes but also the number of grades that we have been able to develop. Currently we have more than 45 grades and now with our increase R&D bandwidth, we are also rolling our newer and newer products, more new products every year. Speaking about the grades which we can cater to EV batteries, our R&D team has been working on it but you know R&D activities take time and when the breakthrough happens it just happens so currently it is under research and development. I will not comment on the timeline. If we are lucky it can come up soon or otherwise it might take a little time but yes I think we are in advanced stage.

Kaushik Roy: We have made some significant progress in that area also. It is primarily lithium ion battery for EV and we are quite hopeful that we will able to crack it sooner than later and that is kind of final frontier for us at this point of time because we have already cracked for example grades relating to plastics, paints, ink, coating, we are kind of through with them, having said that we are continuously improving in those areas enriching our portfolio further and then currently our team is working exclusively on this lithium ion batteries and we have made some significant progress. Very recently I was in Belgium for quick review and then I realized that some good progress has been made by them. We are quite hopeful.

Saurabh Mehta: The last question is on EBITDA per tonne. What would be the gap between a tire and the specialty and we used to have aspiration for few grades in specialty where we thought very, very high margins could also be made upwards of a lakh per tonne so is there any grade which we have been able to develop very high and overall what is the difference between the tyre grade and the specialty for EBITDA per tonne?

Raj Gupta: I would not give you exact numbers, Saurabh. We do not publish separately these numbers but I will just give you an indication. First of all even the foundation grade margins have gone up, all the tire business margins have also gone up in the last four to five years and that is because these are not the same grades that we are selling to tyre companies. There has been lot of customization, lot of new grade roll out and we have even discarded some of the old grades. Even the tire portfolio has changed quite bit, and the margin profile in tyre segment consequently has improved. As we speak currently we make about 2x in specialty business on the margin side when we compare to the tyre segment.

Saurabh Mehta: And performance would be how much?

Raj Gupta: Performance would be 20% to 25% more than tire.

Saurabh Mehta: Thanks a lot and congratulations on very good set of numbers.

Moderator: Thank you. As that was the last question for today, on behalf of ICICI Securities Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.