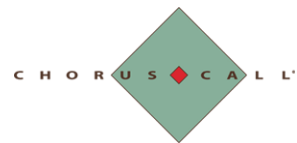




“PCBL Limited
Q1 FY’24 Earnings Conference Call”
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MODERATOR: **MR. SANJESH JAIN – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to PCBL Limited Q1 FY24 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero, 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, Neerav. Good afternoon, everyone. Thank you for joining for PCBL Limited Q1 FY24 Results Conference Call. We have PCBL management on the call, represented by Mr. Raj Gupta, CFO, 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 a Q&A session. Over to you, sir.

Raj Gupta: Thank you, Sanjesh. Thank you, Neerav. Good afternoon to all of you who are on the call and thank you for taking your time to join the call. I would like to point that there would be some statements during the call which may be forward looking and an appropriate disclaimer to this effect has been included in the investor update which we have shared earlier. Let me start with the highlights of our performance in the first quarter. While during the quarter a part of PCBL Tamil Nadu facility was commissioned, but for the sake of easy understanding and comparison, we will discuss the subsidiary performance separately.

The year has started on a good note despite the ongoing geopolitical and economic challenges. During the quarter, our standalone revenue from operations was INR1,297 crores. The drop in revenue is on account of drop in crude prices from an average of USD 97 to USD 82 year-on-year. Standalone sales volumes were ` 118,000 tons up around 8% year on year. EBITDA grew by around 4% year on year to INR 214 crores. And EBITDA margins translated into roughly 16.5%. This is highest ever EBITDA and PBT in our history.

As you are aware the first phase of greenfield facility in Tamil Nadu was commissioned around middle of April. During the quarter we achieved a production volume of roughly 6,300 tons from this facility and a sales volume of around 5,000 tons. It is roughly 45% capacity utilization against the first line. We expect to ramp up production from this line further during this quarter with some approvals that are expected from tyre customers during the quarter. We expect TN facility to achieve break-even at around 45% capacity utilization once all the other remaining lines and cogeneration power plants are commissioned.

We expect to commission the balance capacity during the quarter. Consolidated sales volume during the quarter was ` 123,000 tons. This was backed by domestic sales volume of 82,000 tons and international sales volume of 41,000 tons. Moving on to the segmental performance, tyre accounted for roughly 83,000 tons. Performance chemicals sales volumes were ` 28,500 tons and specialty black volumes were ` 11,800 tons. We continue to expand our product portfolio and customer base.

Consolidated revenue from operation during the quarter was INR1,348 crores, consolidated EBITDA per MT stood at ` 17,550 while consolidated PBT stood at INR156 crores. Power generation also increased during the quarter from 144 million units in same quarter last year to 156 million units this quarter. And corresponding sales volume was 98 million units as against 86 million units in the same quarter last year. PCBL's average realization from power sales stood at INR3.79 per kilowatt hour.

We are pleased to announce commissioning of 20,000 tons per annum of brown field expansion of specialty line at Mundra. Company's total specialty black capacity now stands at 92,000 tons. The newly commissioned state-of-the-art capacity would lead to further premiumization of product portfolio and cater to demand of our Indian and overseas customers. Initiatives are being undertaken to progressively ramp up production from this facility. Long-term prospects of specialty black segment look very positive and we believe there would be adequate business potential to sustain the growth momentum.

Considering the changes in global supply chain and consumption pattern, demand and margins in this segment should continue to remain very strong. Structurally, we are increasing resource allocation to this segment. With regard to market scenario and outlook, domestic market demand is growing with continued strong momentum in OEM segment and replacement market is also doing fairly well. We expect tyre demand to remain healthy going forward. In FY22 and 23, Indian tyre industry volumes grew by around 10%.

Going forward over the next couple of years we expect tyre industry growth to settle in high single digit volume growth. Most of the research agencies also indicate around 9% to 10% kind of growth for this segment. This would help carbon black industry to increase capacity utilization. In terms of near-term outlook, we are a little cautious about the global demand momentum. Continuing high inflation in developed economies might weigh on consumption. We are continuing to work on strengthening our supply chain, improvement in our product mix, and also cost optimization initiatives within the company.

Moderation in oil price is helping our customers to increase margins in their business and is also helping us release a part of our working capital requirements. In terms of mid to long term prospects, the changing cost structure in China and sanctions on Russia has opened a big door of opportunity for Indian manufacturers across industries. Our industry would also benefit from this structural change and we therefore, will have to keep adding capacity over the next few years.

We continue to work on fundamental building blocks of our business to achieve our long-term growth and profitability targets. But at the same time, we also remain conscious of volatility of global business environment and would remain judicious about our capex and ROCE. So gentlemen and ladies, with this I conclude my opening remarks and I would be happy to take your questions now.

Moderator:

Thank you very much. We will now begin the question & answer session. The first question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.

Aditya Khetan:

Thank you, sir, for the opportunity. Sir, my first question was on to the gross spreads. Sir, when we look at the carbon price for the quarter has declined, similarly carbon black feedstock prices have also declined. So generally, sir, in declining price scenario, businesses face inventory loss. But despite this, your spread have come at an all-time high. So what is the reason? And considering the demand also, like into the exports market was not that good. So what is the reason for this good number of spend?

Raj Gupta:

Okay, so I think there are two questions, Aditya, which you have asked. One, declining crude prices have not resulted into any inventory loss. And second is how we are able to increase our volumes despite market conditions, right? Now, answer to your first question is, time and again, we have said that we don't speculate on crude prices or inventory levels. So we only maintain the inventory level for which there is a pass-through in our pricing arrangement with customers.

And therefore, in changing crude scenario, whether it goes up or down, inventory-related impact on our business is as such not there. Unless there is a very steep movement in crude price over a very small period. So like tomorrow suddenly from the current say USD 78-USD 80 level if it drops to USD 40, would there be an impact on our business, yes. But if it drops from USD 80 to say USD 70, would it also create an impact on business? No. Right? So we do a dynamic calculation of our sales forecast in the preceding next three months and accordingly we build up our inventory.

With respect to the overall demand scenario in the market and our volume performance, see, while overall global demand scenario, I would not say it is most conducive period from that perspective. But supply chain relations are changing globally. And Europe is now opening its door for Indian manufacturers. And historically, Europe was a very small market for India. Now, gradually that share is increasing. And it's a big potential, it's a large market, the whole of Western Europe.

And we have in last 6-7 years, invested a lot of money on building up and improving our supply chain in this market. And even now it is just the beginning. I mean, the real improvement in business in Europe has started happening in just last two years. I think gradually it will unfold more and more in next few years. So we are seeing Western Europe as a large opportunity for Indian exports from our industry.

Aditya Khetan:

Okay. And then also the spreads part, and the broad spread, like we have reported the highest ever spread. So considering even if the specialty volumes, they come up in the coming quarters, but considering weakening of demand, export related uncertainty. So can we say that, so this is the peak numbers which we have done in this quarter and we could be sliding down from here on?

Raj Gupta:

I would not say it will go down or move up. See structurally, I mean, there are a lot of areas upon which we have been working since last few years and gradually that is helping us improve blended margins from the business. So that is the structural change that we are trying to bring to business. Now of course in market there would be pockets of opportunity and then when we see these opportunities or the pockets or windows of opportunity, we try to utilize them. So in some

quarters you might see some jump in the margin over the previous quarter. In other quarters you might see some softening. But structurally if you look at year on year performance, I think there is still a significant scope for us to go up.

Aditya Khetan:

Okay. Sir, on to the specialty volume size, for the last 4-5 quarters the numbers have been almost constant at around 11,000 to 12,000 tons. And we are not been able to ramp it up, plus we are adding another 40,000 tons capacity. So what is going wrong here? Like is there a demand issue or the weaker exports market is not helping you to ramp up the volumes for the last 4-5 quarters?

Raj Gupta:

No, I would say 4-5 quarters numbers have gone up. You may not have noticed, but till last year, I mean except for the last quarter, our numbers were in 4 digits. So we were doing about 9,000 tons, 8,000 tons, those were the numbers. And last two quarters we have been doing around 11,000 tons. So volumes are on an increase. In fact, between the same quarter last year and this year, the volumes have gone up by 16%, 17%. Now, why we are adding capacity? Our existing capacity can only support production up to maybe 47,000- 48,000 tons annually.

And we see specialty segment as a large opportunity. Our aspiration is to take our annual volumes to six digits over a period of time, next few years. And that would require us to keep on adding capacity. So as per our existing plan, every year we'll have to keep at least, adding one line, one new line in this space. And it is not only capacity addition, but there is also a very strong R&D team. Currently we have more than 50 persons working in that. We are launching new grades every year. Similarly, marketing team is working hard to create larger market of our specialty customers across geographies. So there's a lot of effort, a lot of work which is going on in this area.

Aditya Khetan:

Got it. Sir, from the newly expanded line of Chennai, that line was started in April. So considering a two to three months full period for the quarter, the volume number still looks to be very low of around 6,900 tons.

Raj Gupta:

Aditya, that line, if we were to utilize that line for the full quarter, it would give us roughly around 13,000 tons quarterly. I am talking about the quarterly volume. And because it was commissioned during middle of April, so proportionate volume we could have got at 100% utilization level, it would have been around 11,000 tons. That was the total utilization if we were to do. Now, against that 11,000 tons, we have produced more than 6,000 tons already in that quarter, which is more than 50% of production.

Now, initially when we produce on a new line, it takes a little time to stabilize the qualities in the grade. And therefore, the approval from major customers takes time to come. So in the first quarter, even that 5,000 tons of sales volume and 6,000 tons of production itself is a big feat to achieve. But we are confident that as we step into the current quarter and going forward, the capacity utilization would only increase.

Aditya Khetan:

Got it sir. Sir, just one last question from my side. Sir, we are witnessing increase of imports from China and so sir, into the carbon black space also, for the last two months we have witnessed increase in imports?

- Raj Gupta:** China at one point in time used to export about 7,000 tons to 8,000 tons in India. Last two, three months their average is 500 tons.
- Aditya Khetan:** So, okay. So, which other countries which are exporting, which are importing to India right now?
- Raj Gupta:** See, overall imports in India have come down from an average of about 2 lakh tons to less than 1 lakh tons. And part of this import is also because there are some grades which are still not produced in India, primarily in the specialty segment. Also because there are very few carbon black manufacturers in India, for tyre companies it's a business risk and therefore they want to keep some relations lubricated from abroad, so that if there is some disruption here in the carbon black industry, they still can get supply from overseas manufacturers. So the level of import as such has come down significantly, and now India has become net-net exporter. So India is exporting around 200,000 tons and importing just about 100,000 tons.
- And among the countries which are exporting to India, it includes some of the Middle East countries like Iran, Saudi Arabia. Then there are some with South Asian countries like Thailand and South Korea. Russia also is exporting something to India. But it's a host of countries, but small-small quantities. And good part is that the landed price in India at which imports are happening is still higher than the price at which we are selling in India.
- Aditya Khetan:** Okay. Thank you, sir. We'll join back in the queue.
- Raj Gupta:** Sure Aditya.
- Moderator:** Thank you. The next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.
- Jainam Ghelani:** Hi, sir. Thanks a lot for giving me this opportunity and congratulations for a good set of numbers. So what would be the current spread between us and the other Chinese products?
- Raj Gupta:** Jainam, could you please repeat your question?
- Moderator:** Jainam, can I request you to speak through the handset please?
- Jainam Ghelani:** So what would be the current spread between our products and the Chinese products?
- Raj Gupta:** You are talking about the raw material side, right? The carbon black, oil and...
- Jainam Ghelani:** Yes.
- Raj Gupta:** So last quarter's average difference was around USD 251 and for June it was USD 269. CBO being on the higher side.
- Jainam Ghelani:** Okay. And so what would be the max capacity utilization we can reach for our specialty black plants?

Raj Gupta: So now with this Mundra commissioning, Mundra possibly would give us around 15,000 tons to 16,000 tons, this new line. And the existing capacity that we had prior to this can give us around say, 47,000 tons to 48,000 tons. So in totality, we can go up to maybe 63,000 tons to 64,000 tons against our existing line. Additionally, one more line currently is under implementation. That should be operational by around this time next year, maybe by May, June of 2024.

Jainam Ghelani: Okay. And we expect mainly demand from Western Europe as you mentioned. So we see that if Russia is open, like, if Europe accepts products from Russia again in the near future or whenever, so that wouldn't affect our demand much, right? Because we started gaining traction from European countries.

Raj Gupta: I did not understand your question. Are you saying that once Russia starts reproducing carbon black and whether that would have any impact on our business, is that the question?

Jainam Ghelani: Yes.

Raj Gupta: Okay. See, Russia is already producing, Jainam. It is not that Russia is not exporting. I sanctions on Russia are only from Western countries, Western European countries and USA. But they have been selling in neighboring countries, I mean, China and other, some of the Asian countries. So that material is finding its way in the market. But the real benefit of this whole thing that we will get, is Russia will stop adding capacity. Because the price at which they would be selling now, they would not be making margin in this business. Their logistics costs would have increased, plus they will have to sell at a discount to the market price. So on both count, the manufacturer would incur losses.

And therefore, there is no case for them to invest in further capacity. And Russia prior to this, , Eastern Europe issue, they were adding capacity very aggressively. They have their own crude. It was cheaper for them logistically, and therefore, they were adding capacity. Almost 70% of their capacity was available for exports. So the real advantage we are going to get is because of their halting on to capacity addition, which is a structural change. So we do not see any further disruption from Russia because the material is already there in the market. Have I been able to answer your question, Jainam?

Moderator: Sir, the line for the participant dropped. We move on to the next participant. The next question is from the line of Vikram Ramalingam from Quantum Advisors. Please go ahead.

Vikram Ramalingam: Hi, Raj. Congratulations on a good set of numbers. What I wanted to check was last year and even the year before that, our logistic costs were very high because of generally, those containers not being available and some new regulations in the shipping industry. Any update as to what the situation is right now?

Raj Gupta: The freight rates, container freight rates have come back to pre-COVID level.. And the contracts under which we supply to our overseas customers are annual contracts which are typically signed around November, December for the calendar year. So the recovery also gets reset every year.

- Vikram Ramalingam:** Yes, You know, why I asked this because that had impacted our margins on the exports business because we were factoring in or we were taking in the higher freight rates. So that's what I wanted to check. If we have gone back to previous levels then automatically our margins from export business should have improved, correct?
- Raj Gupta:** Yes, the impact of freight rates has gone long away. It has been more than two, three quarters.
- Vikram Ramalingam:** Okay, fair enough. My second question is regarding this Tamil Nadu plant, will we be having a specialty chemical facility over there as well?
- Raj Gupta:** As per our current plans, no. So only in the next phase, if we plan any capacity, we still have space there for brownfield expansion. So in next phase of expansion, we might plan but under the current phase of expansion, no.
- Vikram Ramalingam:** Okay. And we already have capacity in the Palej plan, right. Any scope to increase that as well because specialty if things go right you are pretty close to again utilizing your full capacity almost. I mean give or take a few thousand here and there. So if you want to increase the contribution of specialty to your total volume to the tune of 25% then we need to work on the capacity part, right? Because the lines are very different.
- Raj Gupta:** Yes, the lines are completely different. I mean, the process of manufacturing and oil is also different. Now, Palej does not have any space available for expansion. But Mundra we still have some space and where we might put in a third specialty line. So Mundra has scope and thereafter we will have to decide whether we put this capacity in Chennai or we identify a new location.
- Vikram Ramalingam:** Okay. Any product specific grade that we are, that is contributing to this higher specialty sales, specialty chemical sales? In the sense that we've been always in.
- Raj Gupta:** There are grades, , see currently we have about close to 50-odd grades in specialty and all of them are premium grade. Of course, I mean, some of them like, Bleumina, where the realization and margins are very high, but the overall market size for those grades is also not as large. Specialty, is a recent journey for us. We started it just seven, eight years back. And there are a number of grades available in the market where the margins and realizations are extremely, extremely high. Mmuch higher than the grades that we have in our portfolio. So I think, going forward, margin in this segment should improve further. I mean, as we keep on launching newer solutions in this Segment.
- Vikram Ramalingam:** In this plan to increase exports to Western Europe, or rather you believe that that's where the next wave of demand will be from. But I wanted to check is we're talking about still the tyre carbon black only, right? Because are we talking about specialty black when you say, Western Europe? And because in the sense I am not sure whether Western Europe has that kind of tyre manufacturers capacity or facility over there. So I just wanted to check that.
- Raj Gupta:** So the opportunity is in both space Vikram, in tyre as well as in specialty. Europe is a big specialty market. So the scope is across segments and already a good part of our specialty sales is happening in Europe.

- Vikram Ramalingam:** Because your R&D center is also in Belgium.
- Raj Gupta:** Yes, that was one of the rationale behind setting the R&D center there. We can also provide technical support to the local customer.
- Vikram Ramalingam:** Okay, fair enough. Thank you so much, Raj.
- Raj Gupta:** Thank you, Vikram.
- Moderator:** Thank you. Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Hi, congratulations Raj and team on good set of numbers.
- Raj Gupta:** Thank you, sir.
- Bharat Sheth:** My question is first is on the specialty, last year, we in annual report, we stated that we introduce a new product under Energia brand which is a heavy offer exceptional conductivity superior dispersibility. So is that so, can you give some color? How big is the market and again whether this product is a higher superior among the whole Bleumina or not? And second thing is this our journey towards the high conductivity area that we were always talking.
- Raj Gupta:** Sir, we shifted to conducting grades about three- four years back. So I was talking about, this recent initiative of ours, which we started three, four years back. So there is a team of R&D professionals, which has been working on conductive grades. And we have been successful in launching some grades in this segment. But having said that, the pure superconductive grades which will be used in the high-end EV batteries, those grades are still in the lab. We have had some success, initial success in that space, but we need to improve on the purity level. And I mean, we are hopeful that we will be able to launch it soon once we have success with increasing the purity level.
- The current grades that we have, they are mostly used in the conventional batteries and also in the internal coating of electric wires for better conductivity. But a very strong team is working on superconductive stuff and we are hopeful that we will see these grades being launched in the market soon.
- Bharat Sheth:** So Raj, this Energia brand, what is the potential that we are really looking, I mean?
- Raj Gupta:** Sir, in the superconductive space, the demand, actually the market just got created and it is expanding exponentially. Like in India, two years back, the monthly average sales of electric cars was around 1,000 units and in current year it is about 8,000 units per month. So that's the way consumption of electrical vehicles is increasing. And we are seeing similar kind of trend in Europe and China. So the market is expanding rapidly and therefore, estimating the size of market, I think would not be appropriate. It is expanding, it is going to be a really big market. And next five years or 10 years, this market will continue to expand. So there is adequate

potential in the market for manufacturers to sell their products and market to absorb their volumes.

Bharat Sheth: Is this product is most superior, I mean premium product in our all category?

Raj Gupta: So the one that currently, we are working on, that is going to be the very high superconductive quality. But the ones that we have already launched under the Energia portfolio, those are mostly semi-conductive grades of carbon black.

Bharat Sheth: And premium wise?

Raj Gupta: Premium, there will be very high premium. Some of the grades, which get sold in the market, the average realization is around USD20,000 per ton. And because, we don't have those grades in our portfolio, we would not exactly know the kind of margins. But the realization itself is an indication that margins will be in a different trajectory altogether.

Bharat Sheth: And coming to this carbon, tyre grade carbon black, the way disruption is happening in China consumption side, is there any probability of, even at loss, they dump carbon black for tyre grade carbon black into India?

Raj Gupta: So the way we see the current market dynamic, the cost structure has changed significantly in China and it may not make commercial sense for the manufacturers to continue to produce or add capacity. So over next four years, five years, six years period, there will be further consolidation. And because now, Russia will have a lot of countries, in the sanction list so they will not be able to sell there. For them, it will make sense to sell to China, which is a bordering country for them. And between them, if they absorb each other's capacity, somewhere I think at the global level, the market will be under supplied and which should continue to support, the price and margin even for the tyre grade carbon black.

Bharat Sheth: Okay, and last question, with decline in this raw material price and how do we see now, working capital change in absolute, number of days may remain same.

Raj Gupta: The working capital has already come down. Though we don't report our borrowing numbers quarterly, borrowings have come down by about INR50 crores in last quarters. So, working capital requirement will go down with lower crude.

Bharat Sheth: Okay, thank you very much and all the best.

Raj Gupta: Thank you, sir.

Moderator: Thank you. Next question is from the line of Sanjesh Jain from ICICI securities. Please go ahead.

Sanjesh Jain: Yes, thanks for taking my question. I got a few of them. First, talking about the export market, in your opening statement, you did caution on the demand from the export market. What do you see the challenge? And we have seen one of your peers has issued a profit warning. Do you think, the situation is stabilizing, worsening? How do you see the exports market because that's where, we are getting a significant growth factor?

Raj Gupta: So Sanjesh, so far, we have not witnessed any issue with our ability to sell in those markets. But having said that, we are seeing very high inflation numbers still coming from those countries. And also interest rates continue to rise. So at what level those issues will impact the local demand, it is difficult for us to assess. But as of now, we don't see any impact. It might have so happened that the overall demand of these countries might have gone down, but maybe because they are now purchasing less from other countries and therefore, it is not reflecting in our volume.

So our volumes in this market are still on an increase. We just put in a word of caution that the market volatility is still remaining. It is not that market conditions have become better than what it was a couple of quarters back.

Sanjesh Jain: Second, on the export side, incrementally, where is our volumes going to? Because I understand last time you said that the largest buy for us was APAC and Europe was 20%. How is this mix changing incrementally with more volumes going in? And is it fair to assume that a lot of the Chennai facility initial volumes will be placed in the export market?

Raj Gupta: Till the time, we get approval from domestic tyre companies, we will be selling a little more in the international market, but that will be only interim arrangement. Structurally, because Chennai has a lot of tyre manufacturing facilities, so again, a good part of the facility, will go towards catering to domestic demand only. I guess for us to increase our overall, geographical distribution or export volumes in terms of percentage, we will require beyond Chennai capacity. For export volumes to go significantly beyond that 30%- 35%, Chennai will not be adequate for us to achieve that.

Now in terms of geographical distribution outside India, Southeast Asian countries will remain a big market for us. There are a number of countries, which solely depend on imports, which either doesn't have any capacity or which have very little capacity to cater to their requirements. So the countries like Indonesia or Vietnam. These markets will continue to remain important and big for us. Having said that, Europe is assuming importance.

Europe at one point in time, it was around 4%, three years, four years back. Last year, we could do about 14% -15% of our international volume. And this year, we feel that we should be able to cross 20% of volume coming from this market. So over a long term, maybe four years, five years, Europe possibly will assume more importance, maybe it will become 25% to 30% of our overseas volume. That's how, we see it. But that will take further capacity addition by us, because our existing capacity will not be able to cater to this change.

Sanjesh Jain: Just wanted to understand, the Europe situation better. Russia has a certain quota to export close to 7,50,000 metric ton this year, which will expire in July '24. And from July '24, I guess, Europe is looking at a complete ban. So there is 7,50,000 metric ton of additional demand, which will start being. Have you started discussion with any customer or are we looking to evaluate that opportunity, where we can get more share out of that and we have Chennai facility to cater that?

Raj Gupta: So, Sanjesh, the challenge before us is that the local tyre manufacturers are also expanding and there is a very high level of interdependence between tyre industry and carbon black industry.

So we can't afford to commit Chennai entirely to or a large portion of Chennai to European customers. What we are doing is, while in the space of performance grade and specialty, we are adding customers, in tyre space, we are only adding those customers with which, we already have relation in other geographies.

Like some of these customers to whom, we were supplying in some countries but not in Europe, now we are also supplying to them. But we are only committing a part of Chennai or our overall capacity, which we feel confident of, continue to supply to them. So that's how, we are doing it. And like you said that the sanction on Russia is going to create a massive impact on Europe. Yes, it is likely and it has already started happening because most of the customers will not wait till next June or July. They will want to tie up with other manufacturers much in advance and the process is already started.

Sanjesh Jain: So are we looking to get some of those customers and stop for sales or cut down on lower margin spot sales in India and tie up with this long-term European guy?

Raj Gupta: What we are doing is, we are shifting part of our spot market volumes to the strategic customers in these geographies. That's how, we are planning it. We've already started doing it, Sanjesh. So, we have committed some volumes to customers, but it is more of replacement of spot to the strategic customers. And of course, Chennai, to some extent, it will add to the overall volumes, which will go to the overseas market.

Sanjesh Jain: Do you think, you will need to announce another capex, very soon?

Raj Gupta: Yes, we will.

Sanjesh Jain: Okay. Last two questions. One, on gross profit per kg, last time highlighted that, we will maintain the last year's gross profit close to INR32, and this quarter, we have done better than that. You see a reason to change that guidance?

Raj Gupta: No, our long-term guidance, we don't want to change Sanjesh and typically like I said that there are always some windows of opportunity in some quarters and whenever we see that, we utilize that. Structurally, we continue to work on our own efficiencies and product portfolio, which will provide support to improvement of margin. But we will want to retain our guidance on the margin.

Sanjesh Jain: And last question on the tax rate, last two quarter tax rate has suddenly gone up to 31%, 29% from some 20%. Any change in the tax rate? Why there is a sudden jump in the tax rate?

Raj Gupta: Yes, in fact, during last quarter also I mentioned, so our power business was enjoying tax immunity for 15 years under Section 80-IA of income tax. Now that 15-year period has lapsed. It has got completed and with that, now even the power profits have become taxable. So that puts our company in a 25% tax bracket.

And last year, initial quarter actually, we were not sure whether the whole of the shield would expire, in the fourth quarter. And therefore in the earlier three quarters, it was based on that exemption. And therefore the rate was 21%, as against that 24%- 25%. So that impact was taken

in the quarter 4. So that quarter, the tax rate was unusually high. Now for this year, we estimate our tax rate to be around 25%- 26%. And once Chennai is fully operational, then Chennai will be subject to a 17% tax rate. So then again the blended tax rate for on a consolidated basis would come down to around 22% to 23%. But that will take a year's time. In the interim, the tax rate will remain around 25%- 26%.

Sanjesh Jain: Okay, fair enough. Just one question. You said that Chennai facility is more efficient, technologically as well. Have we seen any early signs of better yields, low cost, any of those signs?

Raj Gupta: Yields, we are getting to see that, improvement. But it is still very early stage, Sanjesh, and it will take us, at least two quarters to three quarters more, to see the real impact of the technology, once everything stabilizes. Because when we are running our plant at a lower rating, even that impacts the yields. Right? And currently, we are operating only at, about 45% capacity utilization level. So once, we cross, maybe 70% level, then, we will get to see the real improvement. And it will not only be the yield, but it will also be the productivity, lower maintenance costs, and many other things.

Sanjesh Jain: Got it. That's it from my side. Thank you for taking all my questions.

Raj Gupta: Thank you, Sanjesh.

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

Dhiral: Hello. Good afternoon, sir. Thanks for the opportunity. Sir, what kind of utilization, sir, we expect from the Phase I Chennai facility for the full year FY24?

Raj Gupta: Sorry, what kind of? utilization?

Dhiral: Yes, we expect for the full year, for the Phase I of Chennai facility?

Raj Gupta: I guess, in the first year, it should be around 40% to 45% capacity utilization level.

Dhiral: Okay, sir. Even if the current run rate, working at the 45% utilization, right?

Raj Gupta: Yes, but it is, current utilization is only against one line and there are two more lines, which we are going to add in the current quarter. So when I say 45% I am talking about on the full base of the line.

Dhiral: Okay, understood sir. And sir on the gross spread side, so whatever gross margin per kg that we have delivered in Q1, so with the higher export and the improving specialty sales, do you expect this spread to sustain at least for the full year?

Raj Gupta: See, like I answered this question a couple of times in this call also that one part is the structural change in our own efficiency improvement, efficiency level and product portfolio. It will pull up the margin structurally going forward. And second is the changing market condition. Last couple of years, the changes which have happened in the market on the demand supply side, also on the changing supply chain relation, that is supporting margin. Now that is something which

is difficult for us to read. We are agile enough to gain from the pockets of opportunity. Wherever we see, we try to utilize that.

Dhiral: Okay. And lastly, sir, you are talking about adding capacity with the industry tailwind that we are seeing right now. So what kind of capacity addition we are looking in coming years, let's say FY '25 or FY '26?

Raj Gupta: Yes, I believe that for our growth to be properly supported, we will have to keep on adding between 80,000 tons to 100,000 tons every year. That's the kind of run rate internally we are assessing.

Dhiral: Okay, so probably from next year we might add around 1 lakh.

Raj Gupta: Yes, 80,000 to 100,000.

Dhiral: And so what kind of capex this will require? If it is a brownfield?

Raj Gupta: It will also depend on the metal prices, but typically on a brownfield expansion, we incur about roughly INR50,000 to INR60,000 a ton.

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

Radha: Hi, sir, thank you for the opportunity. Good evening. Sir my first question was, you spoke about for the export market, you're connecting to customers who you're already supplying in the tyre segment. But could you give some light on the specialty side as we know that Europe is a large market for specialty. So who would be our top customers in terms of specialty and also if you could give just some light on performance chemicals?

Raj Gupta: Europe is a big market for specialty, but Europe is not the only market. Middle East is a big market, North America is a big market, and even China is a big market for specialty, and we are focusing on all of these markets, Radha. So it is not only Europe. Europe primarily is getting impacted because of Russia and Russia as such did not have much specialty capacity. So the disruption in their specialty space is not much because of Russia, , on the supply side. But specialty market itself is very large.

It's more than a million-ton market and the volumes currently that we are selling is very small portion of this market. Last year we did about 40,000 tons. Even our current rate is about 50,000 tons, so it is not much. So there is a very big scope for us to improve, just by adding customers across globe, wherever we have market.

Radha: And sir any color on the top customers that we are supplying in the Middle East region or the European region?

Raj Gupta: There are a number of them. So like Middle East, Borouge is our big customer. Europe we have Borealis, we have Sabic , there is MDI, these are all big customers as we speak.

- Radha:** Okay sir, and sir you mentioned that this year you will be having a 25% tax rate. Now, this is assuming that we are moving to new tax rate from FY '24 itself, right?
- Raj Gupta:** Yes.
- Radha:** Okay. And sir you mentioned that we will be getting the benefit of 17% tax rate for Chennai, but that will kick in from FY25. But sir, this year you are expecting 45% utilization. So partly we should get benefit of that as well in this year?
- Raj Gupta:** So Radha, actually at 45% the facility will just about break even. So unless the facility has profit, it will not go on to reduce our weighted average rate. So only once, the capacity utilization is at a high level and we start generating profit from Tamil Nadu then only our weighted average tax rate will come down.
- Radha:** Understood, understood right sir. Thanks sir.
- Raj Gupta:** Thank You Radha.
- Moderator:** Thank you. Next question is from the line of Naushad from Aditya Birla Sun Life Asset Management. Please go ahead.
- Naushad:** Hi, thanks for the opportunity. A few clarifications. Firstly, in terms of your spot business, typically what percentage of volumes comes from spot business currently and how this percentage was three, four years back?
- Raj Gupta:** Currently it's about 30% volume that we are doing in international market and going forward, structurally we want to strike a equal balance with domestic volumes and international volumes. So maybe over a period of 5 to 6 years, we would want 50% of our volumes to come from overseas markets. But that's what requires significant capacity.
- Naushad:** Sorry, not export, I'm asking spot business.
- Raj Gupta:** Spot business, okay, okay, sorry. So spot is also roughly around 30%. I mean, but that spot will also include, so let me just give you a breakup of our segment-wise volume. Roughly about 65% of our volumes come from tyres, which is kind of a committed volume. I mean, there's no hard written contract, but there's a tacit understanding with our customers. Now 25% to 26% is what comes from performance segment, and balance roughly nine to 10% is what comes from specialty currently. Now, this 25% volume which comes from performance, out of this, almost 90% is spot. And again this specialty of 10%, about 2% to 3% is spot.
- Naushad:** Okay, understood. Secondly, in terms of we see this Russia ban in Europe market is an opportunity but if you look at other way, can this thing create a problem for us in the domestic or Asian market because they may start dumping here and there if they don't have European market to sell?

- Raj Gupta:** Russia's most of carbon black facilities are in landlocked locations and therefore the logistics cost for supply from Russia to India would be very high. In fact, in past when we tried to bring oil from Russia, the thing did not work out because of logistics cost issues. And in the last one - one and a half years since this crisis started, while Russian material has started coming in India, but it is not coming at a significant lower price, significantly lower landed price, so as to say. So from that perspective, we don't see as such any issue in India.
- Naushad:** Okay. And typically, how much time it takes to build a greenfield and a brownfield capacity in our industry of a commodity grade?
- Raj Gupta:** Brownfield doesn't take time. Brownfield takes about a year's time once the project is started. And Greenfield, assuming that all the clearances and land is available, then it will take around one and a half years. But getting land and clearances is a lengthy process and that takes about another one and a half years.
- Naushad:** Okay. So broadly, within one and a half years a capacity should come in. So why there is so much gap we are talking about in industry of demand and supply if there is a demand by others are not you know, why industry is not able to match up the capacity which is required?
- Raj Gupta:** So the supply gap has happened primarily because of China and Russia. In China, their raw material cost has gone up, right, and because of that there has been significant consolidation in the unorganized space there. Now the capacity that they have vacated is estimated at around 2 million tons, which is big capacity, and it will take time for that capacity to be rebuilt elsewhere in the world. But because of that, countries have started adding capacity. Like in India, we have witnessed capacity addition in recent years. Indonesia also added a small capacity. So gradually the capacity will come up. So the demand supply gap certainly will be filled up over a period of time. Our estimate is that it will take at least six to seven years before this gap is bridged.
- Naushad:** Six to seven years?
- Raj Gupta:** Yes.
- Naushad:** And what percentage of our commodity grade carbon black we export?
- Raj Gupta:** We do about 30% of our volume in international markets.
- Naushad:** And what would be the largest export market for us?
- Raj Gupta:** South East Asia, I mean it consists of number of countries but like Vietnam is a big market, Indonesia is a big market, Sri Lanka, Bangladesh, these are big markets. Some countries in Europe gradually are becoming bigger.
- Naushad:** Okay, so our reasoning of Russia export to India because of the logistic cost, and here we don't have much exposure in the Russian -- European market, maybe because of the logistics cost issue. So even though if that whatever Russia export to European market goes off, we may not

be able to fetch the good amount of share from that market because of the logistics cost issue. So the local or nearby players should get the maximum share. Is this understanding correct?

Raj Gupta: First of all, there is no nearby or local manufacturers there, I'm talking about Western Europe as a whole geography. And that's a supply deficit region. Last 10 years, they have not added capacity and primarily depended on China and Russia to fill that gap. Logistics cost between India and Western Europe is not very high. Currently it is about USD70 a ton which converts into roughly INR5000. Now from our Durgapur facility when we are supplying to MRF facility in Tamil Nadu, we are incurring almost the same cost, INR5000 a ton, sometime even more. So in terms of logistics cost, it is not much. Third, Europe is not a very price sensitive market. And from all this perspective, we don't see any impact on margin when we sell in Europe.

Naushad: One last, just in terms of, you have answered this question, but just I wanted to touch this again in terms of your EBITDA per kg. In our business, do we at least, you know, get at least two, three quarters visibility in terms of the confidence to get X, Y, Z number of EBITDA per kg or is it very difficult for us to at least predict beyond one or two quarters?

Raj Gupta: So we have fairly good visibility around year's performance. Unless something significant happens in the market, which is beyond our comprehension. On a steady state scenario, we have good visibility for our next 3 to 4 quarters.

Naushad: Thank you sir and all the best.

Raj Gupta: Thank you.

Moderator: Thank you. I request all the participants, please limit to one question per participant. The next question is from the line of Anupam from Lucky Investment Managers. Please go ahead.

Anupam: Yes, thank you for the opportunity and congratulations on your number. Firstly, Raj, if you can help us understand, so we've done about 12,000 tons of specialty in the first quarter. Given the run rate of 48,000, are we looking to hit 52,000, 53,000 tons kind of a number for the full year?

Raj Gupta: Yes, we are hopeful of achieving that. And Mundra's new line is going to support that volume.

Anupam: So, of the 20,000 tons of new line, how much are we looking to hit from that line?

Raj Gupta: I think in a couple of quarters time, we will be reaching full utilization level. That's how we see it.

Anupam: By full utilization, you mean 16,000 tons? That will be a good quarter kind of run rate, right?

Raj Gupta: Yes, so roughly, I mean, we're going to get about 4,000 tons a quarter from the line. And it will take some time to stabilize the quality in the grade. So maybe a couple of quarters from now. It is not that we will not be doing any volume in the interim. But I'm talking about the full utilization we expect to achieve that towards last quarter of this year.

- Anupam:** Understood. A couple of years back the difference in EBITDA per kg between our normal grade and specialty grade was about two and a half, three times. How has that changed in your assessment currently at this kind of demand scenario?
- Raj Gupta:** Around 2x. Currently we are getting about 2x in specialty. Not that specialty contribution has gone down. It is that even the base volumes are yielding better margins.
- Anupam:** Understood. One question on your current quarter spreads, 32 we've been able to maintain. Was there some sort of one-off kind of opportunistic gain like, we had in the last same quarter last year?
- Raj Gupta:** There is no specific one-off event in this quarter. Last year, same quarter was impacted because of Russia disruption. Right, but in this quarter, there was nothing of that sort but market dynamics itself is changing very rapidly. And therefore for all we know, I mean, this kind of pricing and margins would be there. But we refrain from commenting on that because we only trust our own doing.
- But when we give guidance, it is based on what we are doing internally in the company, and not on the demand supply condition, per se, because that may be very short lasting. Honestly, we don't have visibility around this thing that, how these conditions are going to change. For all we know, these are going to remain as is. But structurally, a lot of things that we are doing and our margins are going to improve from here. Anupam, just a point, we can only talk about the volumes and how the overall performance could be. Everything on the pricing may be, it's not - that will be speculated.
- Anupam:** Fair enough. Just wanted to check on the local supply that was coming up by about 0.5 million ton. Has both our peers started production or is there some sort of timeline delay or some sort of?
- Raj Gupta:** Yes, those lines have been there now for more than a year. 0.5 million tons did not come a quarter back. I mean, it came in the last seven, eight quarters and those lines are being utilized.
- Anupam:** And they have been able to ramp it up as quickly as the industry usually does?
- Raj Gupta:** They are in unlisted space and therefore we would not know, we would not have a clear picture. But based on market conditions it is likely that they are utilizing the capacity. Some of the capacity is may be unutilized depending on the quality of the output. That could be one thing. But again, export market is a good avenue for most of them.
- Anupam:** Right. Last question, if you can just call out your net debt number for the quarter?
- Raj Gupta:** We don't report it, so anything that we have not reported to stock exchanges I can't mention here, but I can give you an indication, the net debt has gone down by roughly INR50 crores.

- Anupam:** Okay. And you mentioned INR50,000, INR60,000 per ton if a brownfield capacity is announced. I believe in the interim, till we exhaust our space in Tamil Nadu and Mundra, we won't be announcing a new greenfield, is that a fair understanding?
- Raj Gupta:** No, we'll have to announce it sooner than that because we can't wait for the capacity to be exhausted. Then we will be compromising on growth.
- Anupam:** No, not capacity, I mean space, space-wise. So till we utilize the space that is remaining in Tamil Nadu and Mundra, we will be going ahead with the...
- Raj Gupta:** Yes, we have space in Tamil Nadu, we also have some space in Mundra.
- Anupam:** Fair enough. Thank you so much. That's it from my side. And wish you all the best.
- Raj Gupta:** Thank you, Anupam.
- Moderator:** Thank you. The next question is from the line of Madhav from Fidelity International. Please go ahead.
- Madhav:** Yes, good evening. Thank you so much for your time. I just wanted to understand, seems like there are two things which are changing. One is more of our volumes are becoming more contracted in nature versus selling more on spot, is that a right understanding for the business that is becoming more of a contracted business?
- Raj Gupta:** Yes, Madhav. You are right.
- Madhav:** Which obviously would mean more stability in our pricing and margins versus earlier?
- Raj Gupta:** In a way, yes, but I mean, I mean, the margins also in this segment is good. I mean in the new arrangement when we are selling more to tyre customers in new geography, margins are relatively better, comparable with the spot market.
- Madhav:** And just the second question from my side was in the specialty blacks which we are selling, is it fair understanding that the competitive landscape is much better, that the number of people who are competing in that market would be very limited globally, maybe like single digits, like five, six players or is that like a lot of players who supply these? Because for us also it's taken like eight years, right, to ramp-up, so it's a long gestation business.
- Raj Gupta:** The industry itself has a very consolidated structure. So most of the countries will have only two, three large players. So as such, I mean, it is not very highly competitive from that perspective, but there are some local manufacturers like, Orion also there, which are big.
- Madhav:** Sir, let me ask you this way, like when we look at our tyre blacks versus our specialty blacks, is the number of players in the specialty blacks lower versus the number of competitors we have in the regular grade?



- Raj Gupta:** No, number of specialty black players are much higher because these are all small-small unorganized facilities, lot of them.
- Madhav:** Okay. All right. Thank you so much.
- Raj Gupta:** Thank you, Madhav.
- Moderator:** Thank you. Next question is from the line of Anik Mitra from Finartha Research. Please go ahead. Due to no response, we move on to the next participant. The next question is from the line of Vignesh from Ksema Wealth. Please go ahead.
- Vignesh:** Thanks for the opportunity. Just want to understand the pricing difference between the performance chemical grade and the normal grade?
- Raj Gupta:** Pricing difference is not much, pricing difference is just about 5%, 6%. But typically, we make about 20% to 25% more margin in this segment.
- Vignesh:** Okay. And other thing is just want to understand how for volume in the next five to six years going forward the mix between performance chemicals and special black will be in comparison now.
- Raj Gupta:** Would you please repeat your question?
- Vignesh:** The volume mix as of now, we see performance chemicals and specialty black to be around 30%. Going forward down the line, five to six years how would you estimate this figure to be at?
- Raj Gupta:** Currently, I mean, if you look at last year, it was 30%. This quarter it has been around 33%. I think, somewhere it will remain around 35%, 36% at least in next two, three years.
- Vignesh:** Okay, thank you. That's it from my side.
- Raj Gupta:** Thank you.
- Moderator:** Thank you. Next question is from the line of Rahil Shah from Crown Capital. Please go ahead.
- Rahil Shah:** Hi, sir. Good evening. Most of the questions have been answered. Just wanted to have an outlook on overall volumes over in FY '24, over FY '23 numbers if you just want to share something about that?
- Raj Gupta:** We expect about 10% to 12% kind of a volume growth this year over last year.
- Rahil Shah:** 10% to 12%, okay, sir. Thank you.



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Moderator: Thank you. Ladies and gentlemen, that was the last question for today. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Raj Gupta: Thank you.