



# “PCBL Limited Q4 & FY23 Earnings Conference Call”

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

**Moderator:** Ladies and gentlemen, good day and welcome to PCBL Limited Q4 FY23 Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participants' 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 touch-tone 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:** Good afternoon, everyone. Thank you for joining on for the PCBL Limited Q4 and FY23 Results Conference Call.

We have PCBL Management on the Call today represented by Mr. Kaushik Roy – Managing Director; Mr. Raj Gupta – Chief Financial Officer; Mr. Saketh Sah – Head, Investor Relations; and Mr. Pankaj Kedia – Vice President Investor Relations.

I would like to invite Mr. Kaushik Roy to initiate the call with his opening remarks post which we will have a Q&A session. Over to you, sir.

**Kaushik Roy:** Good afternoon, everyone. Thank you for taking time out to join us today for the call. Our Results are announced today and I will quickly take you through the updates and then open it up for questions.

**We will start with the Highlights of our Performance of 4th Quarter:**

PCBL reported a good operating and financial performance during the quarter. We reported a sales volume of 1,19,238 metric tons during the quarter. This was backed by domestic sales volume of 80,045 metric tons and international sales volume of 39,193 metric tons. If you look segment-wise sales, then tyre accounted for 79,617 metric tons, performance chemicals reported sales volume of 28,126 metric tons, and specialty chemicals sales stood at 11,495 metric tons. Our revenue increased year on year from Rs. 1,219 crores to Rs. 1,374 crores in Q4 FY23. EBITDA increased to Rs. 200 crores year on year from Rs. 148 crores. EBITDA per metric ton stood at Rs. 16,767. PAT stood at Rs. 102 crores during the quarter. Power generation increased from 149 million units in Q4 FY22 to 153 million units during the quarter with external sales volume of 96 million units as against 91 million units in Q4 FY22. With rising demand for power in the country and consequent increase in power tariffs, PCBL's average realization against power sale saw a sharp jump up to Rs. 3.93 per kilowatt hour year on year from Rs. 3.30 per kilowatt hour in Q4 FY22.

**Now, let me talk about FY23 Full Year Performance:**

Our revenue increased year on year from Rs. 4,446 crores to Rs. 5,874 crores in FY23. EBITDA increased to Rs. 775 crores year on year from Rs. 682 crores. EBITDA per metric ton stood at Rs. 17,405. PAT stood at Rs. 444 crores during the year. PCBL reported sales volume of 4,45,184 metric tons during the year. This was backed by domestic sales volume of 3,08,717 metric tons and international sales volume of 1,36,467 metric tons. If you look at segment-wise sales, tyre accounted for 3,12,209 metric tons, performance chemicals reported a sales volume of 92,600 metric tons, and specialty chemicals sales of 40,375 metric tons. Power generation increased from 544 million units in FY22 to 597 million units during the year with external sales volume of 366 million units as against 321 million units in FY22. With rising demand for power in the country and consequent increase in power tariff, PCBL's average realization against power sales saw a sharp jump up to Rs. 3.81 per kilowatt year on year from Rs. 2.99 per kilowatt in FY22. Despite steep increase in crude price, EBITDA per metric ton has improved on the back of improvement in operating efficiencies, product mix changes, and strong performance from the power segment.

**Current market Scenario and Outlook:**

In the domestic markets, demand is growing with continued strong momentum in the OEM segment and improvement in the replacement market as well. We expect tyre demand to remain healthy going forward. In FY22 and FY23, Indian tyre industry volume grew at 10% + CAGR. Going forward over the next couple of years, we expect tyre industry growth to settle in high single digit volume growth. This would help the carbon black industry to increase capacity utilization.

International market is witnessing visible signs of pickup in demand and we expect demand outlook to sustain over medium term. We expect further recovery in the international market. PCBL is geared for the next leg of growth with sufficient capacity to cater to demand from India and global market. The company has taken several initiatives to expand its overseas market presence and expect consistent improvement in international sales volume.

**Status Update on Expansion Plan:**

The first phase of the greenfield project in Chennai in Tamil Nadu being implemented by PCBL Tamil Nadu has been commissioned; rest of the capacity is going to be commissioned over the next 3 months or so in phases. The first phase of brownfield expansion of the specialty line at Mundra is almost ready and is under commissioning.

So, that is the summation I had on the business outlook. At this point, I am more than happy to open it up to the floor for questions.

**Moderator:**

Ladies and gentlemen, we will now begin with the question & answer session. We will wait for a moment while the question queue assembles.

The first question is from the line of Madhav from Fidelity. Please go ahead.

**Madhav Marda:** I was just reading about the global carbon black scenario and I think there was some news flow around either Europe or the US looking to ban import of carbon black from Russia I think sometime this year or next year. And also, I think the US is looking to impose some import duties as well on import of any Russian carbon black. So, just wanted to get your thoughts like is that something which has happened already or something which is under discussion?

**Kaushik Roy:** There has been this talk going on for some time. Europe talked about banning import of carbon black from Russia from June 2024. The USA has talked about it, but they have not defined any timeline as of today. In the current scenario, Russia is still supplying to Europe as well as to the USA. But I guess the customers from Europe and the USA, they are possibly looking at other options as well, which is in a way good for an organization like PCBL. While generally there is a bit of a challenge on the economic side in Europe, but because of this reason that they might be looking at alternate sources against Russia, so it will be an advantageous position for us.

**Madhav Marda:** Have we seen any increase in inquiries from customers in Europe and the US trying to diversify their base from Russia?

**Kaushik Roy:** Yes, we have seen some increase in inquiries from both the USA and Europe. The USA as such structurally is also not really in favor of not importing because the supply-demand gap is increasing. There is no new capacity which has come up in the USA in recent times whereas demand has gone up over a period of time. So, USA anyway structurally they need to import from outside and this Russian thing has kind of added a problem for them. And Europe as I already said, they are looking at other options. Therefore, this is where we stand and to my mind, it is a sweet spot for us.

**Madhav Marda:** Because what we understand is at least from reading some of the global commentary on tyres or carbon black or auto industry, it seems like carbon black is in some sort of a shortage or might be entering into a shortage scenario in Europe and the US going ahead because of what's happening especially in Russia. Is that a fair understanding to have?

**Kaushik Roy:** Yes, I think demand is likely to remain strong, and if Russia is not able to supply – Russia is a fairly big for them obviously, I will not say this as a shortage really, but I think the demand will be strong which is good for everyone in the carbon black industry.

**Moderator:** We will move on to the next question that is from the line of Vishal Prasad from VP Capital. Please go ahead.

**Vishal Prasad:** Sir, the battery chemicals that we are working on, is there any update there?

**Kaushik Roy:** Battery chemicals is part of our specialty chemicals portfolio, and in that portfolio, we have plastic, ink, paint, coating, and also battery chemicals – carbonaceous material actually. The

research team is still working on it. They have made some progress already, but the final product has still not come out. We have looked at some products which are closer in terms of specifications and characteristics, but some fine-tuning is still going on. I guess we will be there very soon. But, a lot of progress, yes, we have made in this area.

**Vishal Prasad:** Sir, I understand we are still not there but if you could talk about the opportunities that we see in battery chemicals so that I understand the opportunity size, the kind of customers we are looking at, and the continents we are looking at, that will be helpful.

**Kaushik Roy:** As I already said, it is part of the specialty chemicals portfolio. In terms of opportunity, as more and more EV vehicles come on the road, this will be a kind of requirement for automobile manufacturers and actually for the battery manufacturers. But at this moment the percentage of vehicles with EV is still small compared to the IC engine-based vehicles, it is much lesser. So, not in absolute terms it is huge, but it is likely to be a fast-growing market as more and more fossil-fuel driven vehicles will be replaced with electric-driven vehicles which is battery-driven vehicles in this case. We are also keeping pace with that, and I think as soon as possible, we will come out with this final product which then can bring value to the organization in a big way.

**Vishal Prasad:** Once we have the product, usually what's the approval cycle from our clients in battery chemicals? It is months or it may take years.

**Kaushik Roy:** It may not be years, but it can take anywhere between say 6 months to 1 year or maybe a little more than 1 year but not like 3-4 years or something. No, not really. I think we can manage within a year's time.

**Vishal Prasad:** What are the hybrid fillers? You have mentioned it in the deck. If you could help me understand.

**Kaushik Roy:** Hybrid fillers?

**Vishal Prasad:** Yes, under specialty chemicals.

**Kaushik Roy:** Have you read something somewhere you are referring to that or....?

**Vishal Prasad:** No, your deck. Just beside nanotubes, we have mentioned hybrid fillers.

**Kaushik Roy:** That is in the space of material science. Our R&D team is also working on some area that is relating to advanced material science and nanotube is one of them. Nano material is one of them which has got different applications, in not only tyres but much beyond tyre also, but it is a completely newer kind of product and it is based on fundamental research. This is that hybrid material we have talked about in the deck.

**Vishal Prasad:** I am not talking about carbon nanotubes. Under focus on futuristic technology, we've mentioned hybrid fillers.

**Kaushik Roy:** For different applications in rubber particularly, we are also looking at a possibility of mixing different polymers with carbon black and come out with certain properties. It can be for rubber; it also can be used for things like plastic. For both kind of applications, we are looking at it but it has not yet taken a final shape because we are trying out with a few different polymers and we have to come out with the final one which is suiting the requirement of tyre, particularly from the angle of say wet grip or noise reduction or reduction of rolling resistance to bring down the fuel consumption. These are some of the opportunities we are exploring at this point of time but this is at the stage of exploration at this moment. And nanotube what I just now mentioned, that is also one of them, kind of.

**Moderator:** The next question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.

**Aditya Khetan:** Sir, the first question is on the carbon black prices. Carbon black prices have been correcting and the trend is largely onto the declining side only. This is largely led by decline in raw material prices or are you witnessing some sort of demand impact into the exports or into the domestic market for this quarter only?

**Kaushik Roy:** The raw material price increase, we are kind of immune to cost increase or decrease because in most cases, we have a formula understanding with our customers. So, whether it increases or it decreases, it is normally a pass-through for us. We focus more on the market demand side rather. That is from the market side. Purely, we look at the demand. And from our side, what we look at is, offering higher value products to our customers to get market share from maybe other competitors and better services. That is from our side purely and demand is driven by the market, of course.

**Aditya Khetan:** Sir, how are you seeing the demand in Southeast Asia? Because that is the larger pie into the export market. And considering inflation biting the consumer budget, do you see any near-term pain in demand into the exports market?

**Kaushik Roy:** I think demand, to my mind, globally will be strong, especially Asia will be very strong from a demand point of view. We are also well geared up because the Chennai plant as I mentioned a while back is in the commissioning stage and first phase has already been commissioned. We are in a spot where we can capture this growth which is likely to happen in the South Asian market particularly and also beyond that in the USA probably. Europe is a little bit of a challenge but overall, basically I think it is looking pretty positive at this moment.

**Aditya Khetan:** Sir, our volumes in this quarter have gone up quite significantly. This is largely led by that first phase expansion? What would be the utilization of the current plant which we have started in this quarter? If you can share the numbers.

**Kaushik Roy:** You are talking about Chennai?

**Aditya Khetan:** Yes.

- Kaushik Roy:** Chennai, in this financial year, we are likely to utilize roughly about 40% to 50% of the capacity. It honestly depends on the approval process of different customers and the time required for that. If it is approved faster, we might be able to utilize it more, but if the approval takes more time, then we might not be able to utilize 40% to 50% capacity. But based on our understanding of the....
- Aditya Khetan:** Sir, 40% utilization onto that 62,000 tonnes which we have done, right?
- Kaushik Roy:** You are right, 40% is roughly about 50,000 odd. We do expect that we will be able to utilize to that extent.
- Aditya Khetan:** One last question, sir, onto the spreads part. We had stated that on a quarter-on-quarter basis, the spreads have corrected. Are we into a scenario wherein the spreads would continue to decline and come to a normalized level which we have seen over the last 4-5 years? Or the upcoming specialty black capacity expansion can offset the decline into the normal grade carbon black? How do you see this trend to move from here onwards?
- Kaushik Roy:** The carbon black which is used in tyre has got certain properties and certain application in tyre and that will continue, there is no question of it not being used. It is a major raw material for the tyre industry and the utilization of carbon black will continue so that one stream continues and definitely we will grow along with that business growth. And specialty is kind of independent. It has got multiple applications. It goes into plastic-related applications, it goes into paint, it goes into ink, coating, batteries; many other applications it goes into. It is like part of our daily life. So, both will grow, to my mind.
- Aditya Khetan:** The current quarter spreads are sustainable or there could be further pain?
- Kaushik Roy:** Current quarter of what is sustainable, specialty?
- Aditya Khetan:** The spreads of current quarter what we have reported.
- Kaushik Roy:** Spreads of current quarter in near term, I think we should be able to maintain that. We are quite positive about it. A little bit of benefit we got in recent times because of some corrections here and there which cannot be but overall, it will be decent one.
- Moderator:** The next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited. Please go ahead.
- Chintan Chheda:** Sir, my first question is on specialty carbon black. This quarter we have reported a record-high volume in the specialty business. How do you see this trajectory going forward for FY24?
- Kaushik Roy:** We should be looking at further growth from here on keeping in mind particularly the Mundra line is going to come into operation. So, we do expect a decent growth. Other than these numbers what we have already achieved in Q4, we will definitely maintain and possibly improve from

thereon. We really say this rate will be maintained and additionally maybe we will look for another 10,000 tonnes to 12,000 tonnes overall we will be looking at for sure.

**Chintan Chheda:** Another 10,000 to 12,000 on this FY23 full-year numbers?

**Kaushik Roy:** Right, on the FY23 numbers, which means I am talking about 25% growth kind of thing.

**Chintan Chheda:** Sir, recently we have seen that the coal tar prices in China have corrected quite a bit. Because of that, are we seeing any pressure on the spreads for our company in the export market?

**Kaushik Roy:** Not really, because coal tar is not a direct raw material for carbon black. The direct raw material is actually CBO. CBO prices have not come down that much. They have come down marginally but still there is quite a bit of gap between petro-based product and CBO. So far, we have not seen any major issue on anything really and I don't think that is the cause of concerns as well.

**Raj Gupta:** Even at the current level of coal tar because of drop in crude prices, it (CBFS) is still about \$70 to \$80 cheaper per tonne and this difference will be significantly higher with CBO.

**Chintan Chheda:** We were seeing in the earlier quarters that a difference between CBFS and CBO had gone somewhere above \$300. How much would be that difference as of date?

**Raj Gupta:** That difference actually went up to almost \$500 a couple of months back. The difference is again back to \$250 to \$300.

**Chintan Chheda:** In that case, our say blended gross margins per tonne will they be around this say 30-31 levels for FY24? Per kg I am talking about.

**Raj Gupta:** Like our MD just mentioned that we are hopeful of maintaining this.

**Kaushik Roy:** A little here and there can always happen but by and large, we will be on the strong wicket in that sense.

**Moderator:** The next question is from the line of Varship Shah from Envision Capital. Please go ahead.

**Varship Shah:** Sir, you mentioned earlier that there was a 10% volume growth in the tyre industry in this fiscal but then why have our volumes declined for the entire year? Did we face any capacity constraints like probably we were operating at max utilization?

**Kaushik Roy:** We talked about growth of tyre industry, yes, of course, but last year was a little unusual. I just also mentioned that there were huge ups and downs in prices which consequently impacted all the crude-based raw materials to tyre industry and that led to major inventory adjustment at the tyre industry side. And what happened in particularly two quarter, in quarter 1 and quarter 3, there were inventory corrections on the side of tyre industry, which negatively impacted us. So, there is no direct correlation last year because of unusual volatility in crude. That is what



happened last year. But now, crude has more or less come to a level and it is likely to remain within a range and if it is range bound, then this kind of inventory corrections normally doesn't happen. Going forward, in this financial year, we are hopeful the things will be much better.

**Varship Shah:** Did I hear you correctly that 40% capacity utilization for the new Tamil Nadu plant for the overall capacity of 1,47,000 tonnes for an additional 50,000 to 60,000 tonnes from that new plant?

**Kaushik Roy:** That's what. Against this 1,47,000 gross, we will be roughly getting based on the actual production around 1,20,000 to 1,25,000 maximum of carbon black. And 40% to 50% of that we are hopeful to utilize this year itself subject to certain approvals from different tyre companies which we are hopeful about and which we are kind of considered planning in this year. Additionally, Mundra specialty line will give some volume to us. At the same time what I just mentioned that Q3 and Q1 were not good the last year because of inventory correction. Hopefully, this year it will not happen. That will also add to some volume. So, overall, from this 4,45,000 what you have seen, this year we feel we should be crossing 5,00,000 tonnes comfortably in the coming financial year which is FY24.

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

**Radha Agarwalla:** Sir, I just wanted to understand on the specialty carbon black side. Given that the global demand is about 1 million tonne, and if we assume India to be at 70k tonne and we are making 40k tonne, but largely out of 40k tonne, 70% we are exporting. So, I wanted to understand out of the total sales of specialty carbon in the domestic industry, who are the top players and if you could understand some kind of market share based on the sales of specialty carbon in India.

**Raj Gupta:** Radha, we are growing very rapidly and aggressively in the specialty field and therefore we did not want to depend completely on Indian market demand and therefore the focus was to spread out and add more customers everywhere across the globe. This was a strategic decision taken by the company and therefore currently almost two-third of our volumes we are selling in the international market. The market size is very large and that will take care of our next 5-6 years of expansion without even having to eat into other market players' share because the market itself is growing at 7% to 8% CAGR.

**Radha Agarwalla:** I understood sir but based on the 30% sales volume in India that we are doing, is it safe to assume that we are the largest player in specialty carbon black as well in India.

**Raj Gupta:** In terms of manufacturing, yes, but in terms of market share, no, because lot of specialty material which comes in India, those grades we don't have in our portfolio yet. And a good part of Indian requirement is currently being imported. But as we keep on adding the grades to our portfolio, then of course, that's an opportunity for us.

**Radha Agarwalla:** Sir, are you talking about conductive and superconductive grades?

**Raj Gupta:** Even in the ink, paint, and dye segment, there are a number of grades currently where we are not present.

**Radha Agarwalla:** Sir, a year back, we had 45 grades in specialty carbon and we were planning to add 9 to 10 grades every year. Is it at 55 as of now?

**Raj Gupta:** If you look at our growth in specialty, it is not only volumes which is increasing every passing year but the portfolio is also expanding. We already have about close to 45 to 50 odd grades. And if you go through our annual report, you will see a fair coverage on that which indicates all the grades that we have launched in last year. Current year also when we published our annual report, you will get an insight into all the grades that we have launched or commercialized during the year. So, the portfolio is expanding even horizontally.

**Radha Agarwalla:** And sir, the feed stock prices between India and China, previously it was \$300 difference and now you mentioned \$215. We were largely expecting it to increase, and even if this is a short-term phenomenon, what would be the reason for this reduction in the difference between India and China feed stock prices?

**Raj Gupta:** The feed stock is a derivative of two different things. Our feed stock is a derivative of crude and price of it depends on the movement in crude prices. And Chinese feed stock is largely carbon black oil which is a derivative of coal. So, the price of that material will largely depend on coal prices and also the demand-supply of coal tar and CBO and their economy. These are two different materials and therefore the price points are always different and depending on the demand and supply of each of these materials, the arbitrage between the two materials keeps changing over a period. Having said that, even the current price difference is significant. In this business, especially on the tyre grade, the average gross margin that we make in this is about \$400 per tonne of finished goods. So, with the \$300+ kind of a price difference at raw material level, you can't compete. Despite all the drop in coal tar prices, CBO still is expensive.

**Radha Agarwalla:** Sir, we were expecting some peer companies to commission their plants in this year, in FY24. For example, Continental and some capacities in Balkrishna and Epsilon. Do you expect the carbon black prices to reduce in this year because of this excess supply to continue to reduce?

**Raj Gupta:** The overall opportunity for growth is very large for Indian carbon black manufacturers and that is the reason why even the non-carbon black players are entering this field. So far as we are concerned, we don't depend solely on Indian market. We have a reasonably good presence across different geographies, and in the last 6-7 years, we have also invested heavily in our supply chain capabilities across markets wherever we see potential. So, we are very optimistic about utilizing our capacities, the whole capacity that we have added now, maybe in the next 2 to 2-1/2 years.

**Moderator:** The next question is from the line of Madhav from Fidelity. Please go ahead.

**Madhav Marda:** I just had one follow-up. I think in April, we had incorporated a new subsidiary for specialty chemicals in Europe. Just wanted to understand what is that about? Are we looking at any new initiative there?

**Raj Gupta:** Madhav, that we did not incorporate because of specialty chemicals. In Europe actually or rather in Belgium, we already had our R&D center. There are a few projects where the Belgium government is contributing to the whole R&D program. So, there is a kind of sponsorship from the government but that comes with a condition that only local entities can participate in those projects. Our branch was like a wing of PCBL India. So, it was not considered as a local entity and therefore in order to increase our R&D bandwidth and participate in those programs, we decided to convert that branch into a local entity. That is the rationale behind it. Basically, we continue to carry out R&D activities primarily and maybe some sales and marketing because now that we have this facility, we can also cater to the local customers through local invoicing and all. But primarily it is for R&D activities.

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

**Sanjesh Jain:** I've got a few questions. First, on the Chennai facility, this incremental capacity consumption what we are talking in that 50,000 to 60,000 metric tons in FY24, do you expect that mix to be more tilted towards export and less domestic? How should we see and what is the implication of this on the overall blended spread?

**Kaushik Roy:** We will be supplying from Chennai to both the international customers as well as domestic. It will kind of also depend on how fast we get approvals from different customers. Our primary objective initially will be to utilize the full capacity as quickly as possible. That is the primary objective. It also depends on approval status from different customers. So, we are a little bit flexible on this but as an organization, international market is important for us, is a big market, and we need to grow in that market quickly and rapidly. So, we are open for both. In terms of margin, I think nowadays both international and domestic margins are equally healthy and strong. So, we are not too worried about margins whether it is the India supply or international supply. Both are fine with us. In a blended manner, it is quite okay. There is no issue.

**Sanjesh Jain:** Now we are talking of faster ramp-up in the capacity and we are also seeing an opportunity there. Are we also thinking to add that remaining 50,000 metric tons in Chennai which we intend to?

**Kaushik Roy:** Yes, I think we need to explore that. We are already having some discussions and we are starting the process because as I mentioned, beyond India, there are opportunities outside India also. And being a large player in this field, there is no reason why we should not grab that. Possibly you will hear some announcement from us on this very soon, but before that, we want to see how fast this capacity is getting utilized or some ..... we get. Once we have that clarity, then possibly we will go ahead. But that might not take longer time because initially when you put up a new plant, it takes typically 2 years kind of thing but brownfield doesn't take that much of

time. It is normally faster. That is one advantage of brownfield. And definitely we can go ahead with that capacity as soon as we feel it is alright to go ahead.

**Sanjesh Jain:** But will that end all the land available for us? Or post that also, we have scope to expand the capacity in Chennai or we will consume the entire land with that expansion?

**Kaushik Roy:** We will have options. One is, Chennai, if we get some adjacent land, we may go for further expansion there. Even existing one also, we can go for, but we would prefer to have a green spacious land, so therefore, we have not put too much of pressure there. Other option we have is we have a lot of space available in Mundra plant. Mundra is another option where a lot of land is available. So, we can look at Mundra also. But we will cross the bridge as and when it comes.

**Sanjesh Jain:** Next, on the market situation. I was looking at a peer presentation. They are clearly showing that the US is having a demand-supply gap in favor of demand and we have Europe market which is now becoming favorable with the probable regulatory curtails on the Russia side of it. Do you think export now can become too lucrative for us and do you think it is sustainable over a longer period of time?

**Kaushik Roy:** I think international market will definitely be lucrative; no doubt about it. And I think it's a mindset of being a global player, we should not bifurcate too much between India and outside India. In India, we are a leading player; of course, we will maintain that leading position, but at the same time, we want to grow in different parts of the globe, especially the US. I think a stage is set for that. This is a structural situation, like in the USA, the demand-supply gap will only increase over a period of time. So, it will be in a way a kind of positive and sustainable over a period of time. Europe, I am not sure whether they will go back to Russia after some time but even in Europe, there is no new facility coming up as such whereas the demand is growing. So, even in Europe, structurally it is alright, but yes, Russia is next door and tomorrow if they remove restrictions, there will be bit of a challenge, but I think we are equally capable to face that kind of challenge. Net-net, my take on this is that international market is very attractive for us going forward, and at the same time, we will definitely maintain the leadership position in India.

**Sanjesh Jain:** Just one last question from my side on the silica part of it. Now that Tata Chemicals is also expanding the capacity, do you think that silica can become a bit of a challenge for us going forward as more and more percentage in the tyre is replaced by carbon to silica?

**Kaushik Roy:** No, not really. Silica cannot be utilized beyond a certain percentage because the properties of carbon black and silica are quite different. The properties which are offered by carbon black, silica cannot offer. And same way, silica also has certain things which carbon black cannot offer. To my mind, both will have their own place. Silica will grow in its own place and we will be growing in our own place, carbon black. It is not that we will be eating each other's share. That will not happen here.

**Sanjesh Jain:** What is the share of carbon black and silica in a tyre at an optimal level you think?

- Kaushik Roy:** Carbon black in terms of volume, it is about close to 24%. Silica, I don't remember exactly. I think it is somewhere around 2%.
- Moderator:** The next question is from the line of Dhiral from Phillip Capital PCG. Please go ahead.
- Dhiral Shah:** Sir, my question is again pertaining to the spread. You mentioned that the current spread will remain the same for the next few quarters. But for the full year '24, you still reiterate to improve by Rs. 1,000 per tonne or maybe Rs. 1 per kg as you guided earlier.
- Raj Gupta:** Dhiral, as per our guidance you know that because of our product mix changes, operating leverage, and also improving manufacturing efficiency, it is likely that our margins would expand by around Rs. 1,000 a year. But last year, if you look at the jump in spread, it was close to Rs. 2,700. A good part of that was because of higher power realization which led to increase in power segment profitability and also about Rs. 600 to Rs. 700 out of the total margin was on account of opportunities which got created because of disruption in the market, the war between Ukraine and Russia. Those are market opportunities and those are not structural changes in our efficiency. Therefore, this year, I think with our further improvement in our efficiency, we should be able to maintain what we could achieve in the last year. So, it is not going to increase by Rs. 1,000 over the last year's number.
- Dhiral Shah:** So, is it safe to understand, sir, at least for FY23 average which was there in on the gross margin per kg side which is around Rs. 32, that we will try to maintain or maybe on the EBITDA part which is around Rs. 16.44, that we will try to maintain for FY24?
- Raj Gupta:** Yes, that's what we are hopeful of.
- Dhiral Shah:** On the power side, what is our guidance for FY24 and what kind of average power rate we can assume? For FY23, it was Rs. 3.81. What will be for FY24?
- Raj Gupta:** I would not comment on power tariff because that's a function of, again, power market demand and supply. But as of now, it looks like the overall energy demand is in favor of power tariff. In number of states, tariffs have gone up. So, it is unlikely that power tariffs are going to come down sharply from the current levels. In terms of volume, I think last quarter's power volumes are reflective of our next year's sales performance.
- Dhiral Shah:** What is the outlook on the debt part, sir? And what could be the peak debt by March '24 as we are still expanding on the specialty part?
- Raj Gupta:** Most of the capital expenditure has already been incurred, well a good part of that. A very small portion is left out now. And if crude remains at current level, we don't see any increase in the gross debt.
- Dhiral Shah:** So, it will be same as FY23?

- Raj Gupta:** Yes.
- Moderator:** The next question is from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** My question is regarding your specialty strategy. Specialty, as per your guidance or your answer to one of the questions, should grow at about 25% this year. So, it should touch about 50,000 tonnes. Say, over the next few years when it goes to 80,000 or 100,000 tonnes on an annual basis, where would it put us on a global map? Like we are 6th or 7th largest globally in the carbon black business. Where would 80,000 or 100,000 tonnes of sales volume put us in terms of the specialty players and what all else you are looking to do to get to that position?
- Raj Gupta:** Jigar, the current gap between the top 3 players and us is significantly large. They are all above 100,000 tonnes already – all three of them. And with our volume of last year, we are already at 4th position in the specialty entity. So, even that 100,000 tonnes in the next 4-5 years is not going to change our rank but certainly it is going to close the gap between us and the third largest specialty player. What we are doing is essentially there are three things. One, of course, we are launching newer grade every year; we are expanding our portfolio. Also, as the newer grades which we are launching can't be produced on the equipment that we have. We are increasing our bandwidth in the area of process and equipment technology. There is a team which is working on creating equipment which can give us the desired properties in the newer grades. And third, of course, is a marketing-related strategy. We are reaching out to more customers across the globe and expanding the customer-base so that when we increase the volumes of the existing grades as well as when we launch newer grades, we have ready access to all the customers. So, strategy for specialty is based on these 3 broad pillars.
- Kaushik Roy:** Just one thing I want to add here. While you are looking at specialty growth and at the same time, we are keeping an eye on the value-added specialty growth. It is like a pyramid. The top one being conductive battery purpose and then it comes down to the lowest level which is the plastic applications. Our focus is more on the value-added products. The objective is growth but profitable growth; that is the objective.
- Moderator:** The next question is from the line of Anupam Agarwal from Lucky Investment Managers. Please go ahead.
- Anupam Agarwal:** Just a clarification on the timelines for commissioning the second phase of Chennai plant.
- Kaushik Roy:** One part, almost 50% of the plant has already been commissioned, we have announced; and the rest also, right now the trials are going on; and within the next 3 months or around that, we will be formally commissioning it.
- Anupam Agarwal:** And Mundra, the 20,000 plus 20,000 or incrementally 40,000 together or that also in phases?

- Kaushik Roy:** The first phase out of that is almost in final stage. Within the next month or two, we will be announcing commissioning of that also, the first phase out of this 40. And the second phase, we might take some more time.
- Anupam Agarwal:** But will that commissioned by the end of FY24 or that will happen in FY25?
- Kaushik Roy:** That will possibly go into the end of this financial year maybe or early next financial year.
- Anupam Agarwal:** The second clarification on the debt repayment schedule. I understood the earlier participant's question that there won't be an increase in the debt. Any repayment schedule you can help us with?
- Raj Gupta:** First of all, our long-term loan book is very small. There is just about Rs. 270 odd crores. And second, most of these loans are for a period between 5 and 7 years. So, it is well spread over the next 4-5 years about Rs. 50-60 crores kind of a repayment every year.
- Anupam Agarwal:** We have Rs. 1,100 crores CWIP, I understand, that's part of the Chennai and Mundra plant. What will be the CAPEX in FY24?
- Raj Gupta:** Like I said that we are almost through with our CAPEX program. This year, there will be incremental about Rs. 150 odd crores investment on brownfield expansion and maybe about Rs. 100 odd crores in Chennai. So, roughly about Rs. 250 odd crores will be the CAPEX for the coming year.
- Anupam Agarwal:** Over the last 2-3 years, we have been talking of yield improvements. What exactly is happening on the ground with respect to our targets? What percentage we are there? How far are we in touching our targets? And if you can give some color there, please.
- Raj Gupta:** Anupam, we have been talking about yield improvement not 2-3 years but 4-5 years and there has been consistent improvement. In fact, the increase in margin performance that you are seeing now and last few years is also partly on account of yield improvement. In some of the grades, we have already set the industry benchmark. So, we are leader there. We are the best performers in some of the grades. In some of the grades, we are closing on in the gap with the best manufacturers of those grades. And of course, there is further scope for improvement. Also, wherever the gap is, that is largely identified, but in some cases, that would require replacement of equipment. The trade-off between the residual life of the equipment and the benefit that we will get out of yield improvement doesn't work out currently. So, it makes sense for us to allow those equipment's to be depreciated completely and then when we replace them with the new equipment's, then the efficiency will creep in. But most of this efficiency will be visible in the new plant in Tamil Nadu from the first year itself.
- Anupam Agarwal:** And the benefit of that yield improvement would also flow in from the first year itself.

- Raj Gupta:** Yes, largely it should be that, but grade stabilization takes time. So, first year may not be indicative of the full efficiency. I guess second year would be a better indicator of the plant efficiency.
- Moderator:** The next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.
- Jainam Ghelani:** Sir, what would be our CAPEX plan for FY25?
- Raj Gupta:** Fy'25, like MD just mentioned that we are still chalking out our road map and it will also depend on capacity utilization we achieve in the next few quarters. But having said that, while the current market conditions remain a little volatile, on long-term growth prospects, we are very optimistic and we believe that in the next 5-6 years, we should continue to grow at lower double digit, i.e., 12% to 13% kind of and that would require a constant capacity addition every passing year. So, it is a little early for us to give you some indication about the CAPEX for '25 but maybe in the next 2 quarters or so, we will have done our work and would be able to give you more clarity. Mundra second line will of course certainly come up either by the end of this year or early next year, but that's a small CAPEX actually, that's not much. Like I said that in 2024 we are going to incur about Rs. 250 odd crores. In 2025 if we decide to add capacity on brownfield, then it will be a small expenditure, but if we decide to go a little large, then again between 2025 and 2026, again we will be incurring about close to Rs. 800 crores to Rs. 900 crores.
- Jainam Ghelani:** Sir, what would be our target ROCE for the next 2 years?
- Raj Gupta:** The last 5 years if you look at our average ROCE, we have been around 18% to 19%. With any capacity addition and when we incur CAPEX significantly, there is no return on that CAPEX during the implementation period. But once the CAPEX is completed, then ROCE increases. Over a mid to long term, I think we should remain around 20%. That's how it would be because we will be in a constant CAPEX phase between now and 2030. So, with that, ROCE should be around 20%.
- Jainam Ghelani:** And sir, one of the earlier participants had asked a question about gross margins. I just wanted to confirm whether.... What we are saying is that we can reach 29% to 30% gross margins in FY24 or I got it wrong?
- Raj Gupta:** It will not be appropriate to look at our margins in percentage terms because that will vary depending on the crude level. In absolute terms, whatever we have achieved in the current year, we are hopeful that we should be able to maintain that and build upon that going forward because of change in product mix and manufacturing efficiency improvement.
- Moderator:** Ladies and gentlemen, we will be taking the last question that is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.



**Aditya Khetan:** Sir, during this quarter, into the specialty black business, we had witnessed almost 30% jump in volumes on quarter-on-quarter basis. But despite this, our gross spreads have contracted by 7%. Just want to know if the specialty volumes are going up. They are commanding around 2x to 2.5x margins than the normal spread. Our spreads should ideally have been remained constant or might have gone up to some extent but we are witnessing dip in spreads. That indicates that the normal grade business and the performance chemicals business are struggling quite hard. Is there any sense which you can give us on how is the business shaping onto that front? Because the numbers are not matching.

**Raj Gupta:** Aditya, what happened in last quarter was there was a significant level of inventory reduction at our customers' end both for specialty as well as for higher customers. Therefore, we were caught up with a little high inventory in the last quarter which was based on high raw material prices. That volume when we sold in this quarter, our margins were not at the same level. So, we made significantly lower margin in that one and therefore the blended margins for the 4th Quarter looks a little lower compared to the previous quarter. That is the reason.

**Aditya Khetan:** Sir, our guidance also we have reduced by Rs. 1 per kilo for the next 2 years. I suppose we are expanding by the similar fashion only. Specialty black we would be adding 10,000 tonnes volume per annum. So, what is the reason you are downgrading your guidance of Rs. 1 per kilo will be maintaining that? Are you witnessing that pain into the performance chemicals which is from the latex side that will continue for the next year? Or from the tyre segment you are witnessing some demand constraint? Because the guidance and the numbers we are not getting that correctly.

**Raj Gupta:** I don't think, Aditya, we have changed our guidance. There is no change in our guidance, where did you get that number.

**Aditya Khetan:** Sir, we are maintaining our EBITDA per kilo for the current quarter. Earlier we had stated we will be improving by Rs. 1 per kilo per annum. What is the reason for that despite increase in specialty numbers?

**Raj Gupta:** Aditya, when we were saying Rs. 1 per kg per year, we were mentioning that on an average in the next 5 years' time, our average EBITDA performance is going to increase at Rs. 1 per kg per year. But the last year and this year if you compare, our EBITDA has gone up by Rs. 2.7. In a particular year if there is a significant jump, essentially that full amount doesn't come from internal efficiency. Part of that is also because of the opportunities in the market. Therefore, we are saying that in the current year, we will try and ensure that we remain at the last year's numbers. Even that number will be a little higher than what was indicated a year back. Based on our 1 year back guidance, our 2024 EBITDA per tonne should have been somewhere around Rs. 16,400. We are still clocking about Rs. 16,700 or Rs. 17,000. So, that's still a little higher than the guidance given. We have to see it in that perspective.



*PCBL Limited  
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**Moderator:** Ladies and gentlemen, that was the last question. On behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.