



“PCBL Limited
Conference Call”
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Moderator:

Ladies and gentlemen, good day, and welcome to the PCBL Limited conference call. Present on the call would be Dr. Sanjiv Goenka, Chairman; Mr. Kaushik Roy, Managing Director; Mr. Raj Gupta, CFO; Mr. Saket Sah, Head, Investor Relations; Mr. Pankaj Kedia, Vice President, Investor Relations.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Please note that this conference is being recorded. I now hand the conference over to Dr. Sanjiv Goenka, Chairman, PCBL Limited. Thank you, and over to you, sir.

Sanjiv Goenka:

Thank you, and good afternoon, and welcome, and thank you so much for joining us at short notice. It's always a pleasure to meet all of you. And many of you have been very strong supporters of the group and off late the PCBL and I thought it's only fair that I share with you some important developments at PCBL.

The last time I had interacted with you all, I had shared with you the very strong growth track that we have for PCBL and the Carbon Black business, the addition of specialty chemicals and specialty blacks. So, that was a shift from Commodity Blacks to Specialty Blacks. Growth in volume -- and the target remains over the next few years to get to 1 million tons.

The growth in volumes, change in product mix to shift to specialty Carbon Blacks and value-added products for specialty use with higher margins and to shift platforms, and this is something that I've been talking about for the last several months. We have to shift platforms from Carbon Black. And it is with that in mind that I thought I must share with you a very exciting development today.

We signed a share purchase agreement with a company called Aquapharm, which is based out of Pune, which is largely involved in chemicals. In phosphonates, in oil and gas chemicals, in polymers and gives us access to a different platform, where we can shift from the carbon molecule to phosphorous molecule to the amino acid molecules. So, this is a very significant step in our company's journey towards getting away from pure commodity carbon black to specialty chemicals.

Aquapharm is a company which has revenues of INR 2,045 crores and this year, will have an projected EBITDA of INR 370 crores, slightly lower than last year's EBITDA. The gross margins are at about 31%. The EBITDA margins are 20%. The plants -- the principal plant is in America with two other plants in Saudi Arabia and India. Phosphonates are used in soaps, detergents, water treatment, desalination and the main customer base for Aquapharm is Procter & Gamble, Unilever, Henkel, Reckitt. It is a world leader. It's number two in the world and is in the area of specialty chemicals.

Phosphonates is 53% of the portfolio; oil and gas chemicals is 25% and polymers, rest. We are paying or we have agreed to pay a sum of INR3,800 crores, which is -- which amounts to 9.1x



current EBITDA levels and 8.5x 'FY25 EBITDA levels. Between PCBL and Aquapharm, over the next 30 months, the cash flows would be adequate to take care of this entire acquisition cost.

Let me also remind you that PCBL sits on a certain amount of INR 450 crores of liquid cash at this point in time. And Aquapharm has no borrowings whatsoever, it's a debt free; and PCBL has only working capital borrowings. The exciting thing about this is that it accelerates our growth. It helps in future-proofing our portfolio within products which are sustainable, so, A; sustainability; and B; decarbonization.

Green chelates is something that's very, very exciting, extremely exciting. It's biodegradable. It's sustainable. It's green. So green chelates are biodegradable chelating agents, which improve detergency. The global market for this product is 1,30,000 tons as it stands. Aquapharm today is at 3,300 tons. The growth rates are interesting. The headroom for growth is enormous. And the plan is to increase it to 20x over the next 5 years; 20x of the current production of 3,300 tons.

Water-soluble polymers is something that also offers a very exciting opportunity, 35% contributions. The global market is 4 lakh tons. Aquapharm's capacity is currently 4,000 tons. So again, significant headroom for growth. Global leaders who are customers, plants, which are diversified with global supply chain and in Chemicals, which are high in value, high in contribution, high on growth rates.

So, you have Commodity Blacks, which are stable; then you have Specialty Blacks, which are very high in terms of contribution and high in terms of growth; and you have expansion there, and now you have another platform, which is the phosphorous molecule and the amino acid molecule platform.

And this calls for even stronger growth. So, it's a huge opportunity. It's both margins accretive and earnings accretive. So, I think overall, this is a unique opportunity for us. We decided to sign the share purchase agreement and I thought I must take you into confidence. So immediately after the Board met and approved the transaction, I'm having this call with you. These are the broad outlines of the transaction, which, as I said, to my mind, is extremely bullish for the company, puts us in a different area, but with synergies, synergies on the supply chain, synergies on manufacturing processes, operational synergies.

And we do believe, we can add value to Aquapharm from where it is. And so combined, to repeat, it will be both margins and earnings accretive. So that in a nutshell is what I wanted to share with you. I'm now opening to answering questions that you might have. I'm there. The PCBL team is there, my Investor Relations team is there, and we will all together try and answer as many questions as you might have. So over to you.

Moderator:

Thank you very much. Our first question is from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta:

Congratulations on such a big move in the company. Sir, many questions, but I will restrict myself to two to three. Sir, first is that we are in a specialty black business while we have been continuously focusing more towards specialty chemicals, but this move that it's a completely

unrelated chemical chemistry and product basket also catering to different set of industries. So what value addition PCBL can bring in here?

Also, in terms of the end user industries and the business profile, the company is quite – the product category is also quite different catering to detergents and other industry cleaner materials. So how do we see that the synergy will be achieved from our current business? And how do you see that the focus of the group is going to change over a period of next two to three years? That is one.

Sanjiv Goenka:

Yes. Okay. Thank you, Rohan. Very simple. First, this product is – this company is number two in the world, in the areas in which it operates. So, it's a global leader. It has critical mass. It is supplying to P&G, Unilever, Henkel, Reckitt, so all global leaders in their own right. So, it has a very good management, has a very good team, which is functional, successful, operational, where we can bring immediate contribution is in the manufacturing process, which is very robust but we do believe we can improve it.

We do believe we can help in the procurement and the supply chain where we do believe there is some potential. But overall, it is our first step into getting into specialty chemicals. And as I said, future proofing the portfolio of PCBL. So, it should be commodity blacks we got into specialty blacks and now from getting out of – I mean, remaining in black, growing there but getting into chemicals.

Rohan Gupta:

Sir, second is that you mentioned that the payment terms would be over the next 20 months of the entire sum of the money. If you can just shed more light on that, that how much you have plans to fund it through debt? And what is the payment terms? How it will be paid over a period of time?

Sanjiv Goenka:

Well, initially, we will take debt. But let me just say that combined on a conservative basis over the next 30 months, we expect the two companies to have EBITDAs of INR4,000 crores-plus. The acquisition cost is INR3,800 crores. Both the companies are debt free. So, over the next 30 months, we anyway expect the debt to be completely paid.

But I do believe that we would actually be repaying before that. I am personally very debt averse. I have said that time and time again. I'm uncomfortable when we have debt. I frankly don't get sleep if we have debt. So, most of our companies, you will see our long-term debt free.

And that is the way PCBL has been, that is the way it will be. So, there is a short-term debt that we will have. But hopefully, well before 30 months, we should be debt free. And we have INR 450 crores liquid cash lying with us at this point in time.

Rohan Gupta:

Sir, this INR3,800 crores, you said that will be paid over a period of 20 months? What will be the payment terms?

Sanjiv Goenka:

No, no, no. INR3,800 crores – see, so we've signed the share purchase agreement. Now, over the next 3 months, we expect the transaction to get closed when we pay the INR3,800 crores and which will be funded by a borrowing at this point in time and the cash that we have, as it stands

in PCBL. And over the next 30 months, we will repay the entire borrowing and maybe we will repay it even before.

Rohan Gupta: Sir, with a such a strong margins and as you mentioned that they're number two position in a global business, the reason for sale of this business would have been?

Sanjiv Goenka: Well, what we were told is that the current promoters, it was a joint venture between two families. The family had many branches. And as it sometimes happens in families, which become large, they want to cash out. So I can tell you that there were three people bidding, and we did not overbid. Our bid was the same as our bid as our next competitor's bid. But the Aquapharm ownership preferred to deal with us because they were more sure of our credibility and our reputation than our nearest competitor.

Rohan Gupta: Sir, just last bit then I'll come back in the queue...

Sanjiv Goenka: Both bids were exactly the same amount.

Rohan Gupta: Okay. Sir, just last bit, and I'll come back in queue. You mentioned statement, which I couldn't get that, the current capacity is roughly 3,300 tons and you have plans to increase it by 20x over the next 5 years? I couldn't get that?

Sanjiv Goenka: That is in green chelates, so not phosphonates. That is in green chelates. The green chelates is a future product, which is biodegradable, it's a biodegradable chelating agent which improves detergency. The global market for that, as it stands, is 1,30,000 tons. Aquapharm's capacity is 3,300 tons. We do believe that we have this. I'm saying we, let say, Aquapharm has the ability to expand this to 65,000 to 70,000 tons, the market would then grow much more. And with that growth and Aquapharm's credibility with the customers, we should be able to get that market share.

So that provides a huge growth. But when I'm talking of the cash flows for the next 30 months, that growth is not factored in. So we have been conservative in our forecast at this point in time. We are not factoring in growth from additional capacity expansion. We are factoring in contributions from things as they stand.

Rohan Gupta: Okay. Sir, just one small clarification on financial front, you mentioned that INR 370 crores is EBITDA on a INR 2,045 crores revenue. If you can just sort of give us what is the PBT and PAT number? And what is the cash profit from this Aquapharm, right now?

Sanjiv Goenka: So last year, I mean, March '23, the PAT was INR 280 crores. And this year, it's still underway.

Rohan Gupta: And sir, out of INR 280 crores – what would have been the, sir, cash profit? I mean what is the tax part paid? The reason I'm trying to understand that the INR3,800 crores debt at the average debt cost of at least 9.5% to 10% whether this will be EPS accretive for our numbers or not?

Sanjiv Goenka: Yes, it would be. I mean those workings we will share with you very, very clearly. And we will send that data across to you, and it will be. And this is a bad year for the industry. Next year

should be a better year. So hopefully, cash flow should actually be higher than INR 370. In fact, the forecast is for higher and FY'26 is even higher.

Moderator: Our next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Firstly, congratulations on the acquisition. Just one question from my side. Since I think you mentioned that the promoters want to cash out. So just wanted to understand who would be running the show once we complete this acquisition in the next 2, 3 months, would the current promoters render any know-hows for some time? Or would we be running the show from day one?

Sanjiv Goenka: Well, the current promoters would be involved for a couple of years, at least the operating promoters. But it's not just one individual who runs the company, it's a whole team. So, the whole team exists. And that team will be there. And – so I'm not at all concerned about the change in ownership. I do believe that the change in ownership can actually help in terms of some value addition in terms of manufacturing process, some value addition in terms of supply chain.

And hopefully, RPSG might bring some other practices, which might improve. So, I think as a group, the one thing we've done very well is we managed acquisitions very well. So, I think this is something that is our core competence. It's something that we've done well over generation, frankly. And certainly, we've done well with our last few acquisitions, including sports. So, we're looking forward to it. And we do believe this provides an area of huge opportunity for PCBL and its entire family of stakeholders and shareholders.

Krishan Parwani: Thank you for patiently answering my questions, and all the best and congrats once again.

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

Aditya Khetan: Thank you for the opportunity. Sir, as I mentioned in earlier participant that the reason for selling that because the families are becoming much larger. Sir, but I believe this Aquapharm was looking to sell the stake since April 2023. Sir, is there any other specific reason why this Mangwani family, which is the promoter of Aquapharm, want to like divest at a time when the global -- when the Indian chemical sector is diversifying in terms of like value chains and growth opportunities. Any other reason which you can like highlight apart from these families and all...

Sanjiv Goenka: They've been looking at selling. Of course, any transaction takes time and they ran a process. So, you're right about your time on April, and it's taken 7, 8 months to come to a conclusion. And we had three competitors, and they've had a very strong process. And the reason ascribed to us was that they really want to cash out and it's quite normal. I think -- it's actually a huge opportunity because the Indian chemical sector is poised for very big growth as indeed the global chemical sector.

And you will have consolidation. We are seeing this across industry, across portfolios. And I think we are fortunate that we have bagged this one. We do believe it's a phenomenal company

and has huge growth potential. We do believe they've done a good job. It's not that they've not done a good job, but we do believe we can do better with this.

Aditya Khetan: Okay. Sir, somewhere what I've read in that this company is having a cumulative capacity of 70,000 tons. And sir, you're mentioning some 3,300 tons. So, this is tons...

Sanjiv Goenka: No, there are different products. So, phosphonates is where they have 70,000 tons. Green chelate is something which they've just started. It's very new – it's a very new product in the whole world. So, this is very green. And as I said, we are – and I've said this earlier, from commodity blacks to specialty blacks, from specialty blacks to chemicals and the next phase is going to be chemicals, which go into electric vehicles.

We are close to it, hopefully soon. So, it's a portfolio shift of PCBL. And you will see the profile of the company changing to value-added products more and more and getting away from commodities, getting more into green sustainable biodegradable kind of products. And this is what you will see more as PCBL progresses.

Aditya Khetan: Got it. Sir, just one more question, sir, like this Aquapharm farm is totally an unrelated acquisition. So, the current Board, you said that at least for the initial year, so the current Board will run the company. So, like, sir, how competitive would it be for the management and how we can like handle all the challenges related to this?

Because since this is a newer business, and we might not have that handle like – so handling like the water treatment and all these phosphonates. So, is this a good decision by the management? Like so for running initial years or like we should be like looking out for an expert from outsider who can run this company?

Sanjiv Goenka: So firstly, there's a very strong management. So, it's not only the promoters, but it's also team underneath the promoters who run the company, right? It's not one individual, but it's several people who are in the company. So, the promoters cash out, the management team, the operating team remains, one.

Two, there is enough talent available in the market who are specialists in this. So, you need technologists who are specialists, which we have, management skills are the same, whether you apply to product A or product B, the general management skill are the same. It doesn't take that long to learn and acquire knowledge about customers, global supply chains, manufacturing processes. Principally, they remain the same, and there is talent available.

Yes, we have identified some talent. And no, we are not concerned about the management at all where we are actually very excited, and we do believe that we will add value and the company will grow more than it has grown in the past.

Aditya Khetan: Got it. Sir, in FY '23, we have seen a dip in EBITDA of Aquapharm, like from around INR 420 crores, the EBITDA has dipped to around INR380 crores, as you had mentioned in your earlier remarks. Sir, this dip is largely because of like because this company is into exports market into

Europe and like Saudi. So wherein the markets are weak, that is one reason, which could be attributed for this decline?

Sanjiv Goenka:

I think -- I mean, since I was not specifically -- or RPSG was not specifically running the company, so we cannot precisely tell you why the dip has happened, but yes, the dip happened. But we do believe the dip or that aberration pertains to two quarters only. And from quarter four of this year, which is January-March quarter, the performance will get back to where it was and more. So that is our belief and expectation and I think I'm told that we are already seeing the October month being better and November-December should be even better.

Aditya Khetan:

Got it, sir. Sir, just one last question, sir. If you can highlight more on to the like on the capex side, what Aquapharm would be doing? How much is the revenue potential on top of like INR2,200 crores? And what sort of numbers are like growth or something, sir, which you can like highlight to us for the next two, three years, as we are having no idea on how much capex, how much numbers would the company can do over the next two to three years?

Sanjiv Goenka:

Well, very simply put, chemicals don't invest high capex, okay, that's very, very clear. There are production facilities or manufacturing facilities, which can be scaled up. But the big expansions will come in green chelates, which is a very high contribution item. Again, biodegradable, sustainable and water-soluble polymers, which has 35% contribution.

Now we are like a few minutes into the company. So, we'll need a little bit of time to specifically go through the plans. We have seen the plans that exist as is, but we do believe there might be some changes, and we may be more aggressive with the growth plans. So give us a few weeks, let us conclude the transaction. And we will come back to you with very specific plans.

I mean we have some thoughts, but we would on growth, which are, as I said, aggressive. And -- but just give us a few weeks. I mean it's literally been like less than an hour since we signed the share purchase agreement, and we haven't taken control of the company yet. So it's a little early, but yes, it's exciting, it's strong growth, and it's -- these products are not high on capex at all.

Aditya Khetan:

Got it, sir. No worries. Sir, just one last question, sir, if you can highlight the H1 revenue EBITDA impact, half yearly, sir, H1?

Sanjiv Goenka:

Raj, you're on the call, would you like to share this number?

Raj Gupta:

Sir, there was some voice disturbance, so...

Sanjiv Goenka:

So, Raj, what the question was, what was Aquapharm's half one financial numbers? Would you just like to share that with all the people on this call, please?

Raj Gupta:

Yes, the first half was around INR1,000 odd crores revenue number.

Sanjiv Goenka:

And bottom line?

Aditya Khetan: And sir, EBITDA?

Raj Gupta: Bottom line would be roughly around INR160 crores/ INR170 crores.

Aditya Khetan: EBITDA, sir?

Raj Gupta: EBITDA would be roughly around -- so this INR160 crores I'm talking about is PBT number. And EBITDA would be around INR190 odd crores, roughly.

Aditya Khetan: Okay, sir. Thank you, sir. Thank you.

Moderator: Thank you. Our next question is from the line of Sanjeev Mohta from B&K. Please go ahead.

Sanjeev Mohta: Congratulations on the acquisition.

Sanjiv Goenka: Thank you.

Sanjeev Mohta: Yes. So just a couple of things. One, who are you competing with in this acquisition, regard whether the large players or...

Sanjiv Goenka: One was very large. I don't know whether we're at liberty to talk about who were other competitors.

Sanjeev Mohta: Sure. Yes, that's fine. I'm just trying to understand the type of players. Yes.

Sanjiv Goenka: One was very large. And one was a company which has done a couple of chemical acquisitions. They have a strong chemical portfolio. I don't know whether they'll be a target to take over at some stage.

Sanjeev Mohta: Right. And like what was the reason we won the deal?

Sanjiv Goenka: I think at one stage, it looked that we were out of the transaction and then it came back on the table. We were very clear that we are not going above this value, and we had strong conditions and conditions precedent to closure. And the price was -- I'm told exactly the same.

Sanjeev Mohta: Right.

Sanjiv Goenka: There is no difference in the price. But I think maybe there were doubts on the other parties ability to conclude. I don't know, not for me to comment.

Sanjeev Mohta: Right.

Sanjiv Goenka: But when the deal came back on the table, we're working on the transaction because we are convinced about the prospects of this company. And as we are about something else that we are pursuing in the electrical vehicle space but hopefully soon, hopefully soon.

Sanjeev Mohta: Right? So yes, that was actually -- you led to my next question, which was -- you're talking -- you are alluding to another potential acquisition. So if I look at the capital structure of the company, of course, this is a debt-free company. So that helps in terms of debt taking capacity. So like how are you looking at it post, let's say, what you would want PCBL to be, let's say, once all the acquisitions are done?

Sanjiv Goenka: I don't know about all, but I can tell you about the immediate thing as I said, PCBL's commodity blacks is one part, specialty blacks is the second part, where, we're going to grow between these two, to about one million tons, which is the current portfolio and which is very strong, very strong in growth, very strong on margins now with specialty.

The second is specialty chemicals, and the third is chemicals, which go into electrical vehicles. So those will be the three pillars for the moment. All three which are very high on growth, higher margins and two and half out of them are certainly very high or very futuristic in terms of being green, being sustainable, being leading towards decarbonization and biodegradable.

Sanjeev Mohta: Right. But in terms of capital structure, would you want -- would you then have to raise some equity you think or from a capitalization, how are we placed do you think?

Sanjiv Goenka: Sanjeev you see those are calls which we haven't yet taken and we will refer to advisers very soon. But for the moment, we will take debt and we will see. Equity is always an option that's available. And it is something that we could well do, but those are calls we haven't taken finally yet. All I'm saying is if there is equity, of course, the debt becomes that much less, etcetera, etcetera. There is no equity over the next 30 months, the combined entity's cash flows can take care of the entire debt. That's the limited point I was trying to make.

Sanjeev Mohta: No, so I understand from this acquisition, but if you're talking about one more, I'm just trying to understand how are you looking at that?

Sanjiv Goenka: Well, that's something which we will acquire. I can't say much at this stage, but hopefully very soon, hopefully, very, very soon we should be back to you. with something that's extremely, extremely exciting. And that is in the electric vehicle space that I can tell you. And as we speak, our team is negotiating the final terms of the agreement. So the principles, I think, are broadly agreed. But specific clauses, the lawyers are discussing at this point in time. I don't know how long that will take, but it shouldn't be too long.

Sanjeev Mohta: Sure, Sanjiv. Thanks. All the best for that acquisition as well. And I think we are very, very exciting company, I guess.

Sanjiv Goenka: Thank you. Yes, somebody told me it's going to become the flagship of the group, and I said I hope I have more than one flagship so-called flagships. PCBL is certainly going to be one of the strongest growth entities for the group. I mean all companies in the group are growing and growing very fast. But PCBL is certainly growing faster. And it's quite exciting.

Sanjeev Mohta: Okay. Thanks a lot.

- Moderator:** Thank you. Our next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Congratulations on the transaction. Two, three housekeeping questions. One is, does the transaction amount, I mean, what extent of working capital is included in the transaction cost?
- Sanjiv Goenka:** So, the current working capital is included.
- Nitin Agarwal:** Can you give us a rough sense of how much will that be on a net working capital?
- Sanjiv Goenka:** I mean it's an ongoing company, so you're acquiring an ongoing company. So the working capital is totally there. I mean your debtors, your creditors, everything is already there. So you acquire as is, where is and you pay this money to the promoters, existing promoter.
- Nitin Agarwal:** I get that. If you can give a sense of the quantum of the working capital in the business right now?
- Sanjiv Goenka:** It's about INR450 crores, right, Raj?
- Raj Gupta:** Yes, sir, it is INR450 crores.
- Sanjiv Goenka:** Yes, it's INR450 crores.
- Nitin Agarwal:** Secondly, in terms of -- when you think about the IRR on the transaction or I mean, how are you looking at the payback? How many years do you think you can recover the cost of the transaction?
- Sanjiv Goenka:** So, there are different ways of doing it. One is from current levels. The other is how you improve profits, how you improve capacity, how you improve capacity utilization, how you add on capacities? And how does the market view it? So chemical companies once listed, I would believe that the multiples should be much higher than nine. And that in itself is -- there is headroom there.
- But profitability wise, I do see strong growth. But as I said earlier, that we've literally been less than an hour into the acquisition. And -- so payback should be soon, but there are specifics when we formally take over the company, I would be in a position to share much more detail with you. Because it would have given us a couple of months of insight into the company. So far, all our insights are based on the diligence that we've done.
- But then one would see it as with the perspective of insider and one could be in a much better position to talk about growth and far more confidence. So, what we are sharing with you is what the existing plans were. But we do believe, from the outside out in that it can be much more aggressive. And chemical capex are not high.
- So it's something that we would be much more specific -- I'm sorry, I'm not in a position to give you more details at this stage. All I can say is, it appears that we can grow faster than the previous

management forecasted, but we would need a couple of months before we can specifically tell you precise numbers, which product, how much will phosphonates grow by, how much will green chelates grow by, how much will water soluble polymers grow by? I mean we are telling you what we have been told and what the management believes. But we have had McKinsey to validate these numbers for us, but we would need to get in ourselves and validate that.

Nitin Agarwal: That's absolutely fine, sir. Secondly, since you mentioned the green chelates a few times, what proportion of our current business is green chelates business?

Sanjiv Goenka: Green chelates is small at this point in time. So let me just take you through the portfolio mix. Phosphonates is 53%. The chemicals, which go into the oil and gas industry is 25%. And the polymers constitute the rest. So, amongst the polymers is green chelates and the water-soluble polymers. So, you're looking at the whole thing of the amino acid chemistry and that whole polymer platform, which is very small for the company at this point in time because they're very new products, right?

And this whole -- these products become more-and-more relevant when the world becomes is moving towards a greener future. And therefore, the prospects for these products are much more exciting today than they were two years ago.

Nitin Agarwal: Right. And last one, while you've given the three-year financials, if you just probably can go back a little bit more and just give us maybe the five-year CAGR revenue growth and EBITDA growth for this business, historical growth?

Sanjiv Goenka: That I'm going to ask the CFO of PCBL, Raj Gupta, to share with you. Raj?

Raj Gupta: It has grown by about 15%- 16% CAGR. And that's what the trajectory for the future also is for the next four years, five years.

Sanjiv Goenka: Let me just come in. No, no, no. 15%-16% is what the existing management forecast, that is not the trajectory I'm forecasting.

Raj Gupta: Yes. Right.

Nitin Agarwal: Right. Okay, perfect. And while I'm sure, there's been a, obviously, as you rightly said, it's only been an hour since you acquired the business. But apart from the interventions that we can undertake to accelerate the growth of the business, are there any prima-facie synergies between what PCBL does right now and in this business or they're absolutely complementary businesses?

Sanjiv Goenka: Well, they are complementary largely, but there are synergies in – as I said, the global supply chain, procurement and manufacturing processes, we do chemical process manufacture very well. And we have to now get into the plants. So yes, we've had teams out in America and Saudi Arabia. And we do believe our teams have come back to say that we do believe certain value addition can be made. But now we have to get into that much more. And in a few weeks, we should be in much better position to share those details with you.



- Moderator:** Thank you. Our next question is from the line of Abhijeet Bora from Sharekhan. Please go ahead.
- Abhijeet Bora:** Congratulations for the acquisition. And my question is that are we going to keep this company separate and list later on, like what are you merged with the existing business? What are our plans? Because -- you said that it is at around 8x, 9x EBITDA valuation. So there then be a value unlocking opportunity going forward?
- Sanjiv Goenka:** Clearly, there is a value unlocking opportunity. And as I said early on in the conversation, we are speaking to specialists who are examining the exact structure, but it will be part of PCBL, whether it's a 100% subsidiary, will go public or it is a division, I think -- and PCBL goes to the equity markets, those are calls that yet have to be taken. But it will be part of the PCBL. It will be in a manner that whichever way it gets, consolidates into the balance sheet and the earnings of PCBL.
- Abhijeet Bora:** Okay. And secondly, when you say that it will be earnings accretive, you mean to say it will be earnings accretive from the first year of acquisition or like post the -- when the debt is being repaid? Because what my understanding is that INR380 crores of EBITDA and it's being entirely funded through debt 9% to 10% of the interest would mean that EBITDA will be taken -- the interest will -- EBITDA will be absorbed by the interest itself.
- Sanjiv Goenka:** So that is for this year. That is for this year. But look at next year, the forecast are much higher and the year after, they are even higher. So, for the first full year that we have Aquapharm, we do believe that we will be bottom line and margin accretive. But again, more details when we take over the company. And sorry to keep repeating it, but the excitement and confidence is huge. And I'm not one who makes commitments that I can't honor. I have -- my policy has always been to under-commit and over-deliver.
- So I don't want to say anything more at this stage because our knowledge about the company is very limited. It's limited to the diligence we've done, it's limited to the exercise that McKinsey did for us. And some of the consultants we used it for. So, we've got top level advice, very, very strong advice from the chemical space. And off the record, I can also tell you that a part of the family, not direct family, but a part of the family is very strongly involved with the chemical business. And we've been consulting with them also. So yes, I mean, I can't say more, I'm sure you understand what I'm referring to. They've been very successful in what they've done and they understand the chemical space extremely well. And they've also been extremely excited about this opportunity.
- Abhijeet Bora:** Okay. Just to like clarify it have I understood correctly that we expect to the very first year of the acquisition to be...
- Sanjiv Goenka:** First full year acquisition to be better yes, first full year of acquisition, yes, that is a commitment. Absolutely.
- Moderator:** Thank you. Our next question is from the line of Dhruv Bhatia from Bank of India Investment Managers. Please go ahead.

Dhruv Bhatia: Congratulations for the acquisition. Sir, my first question is you mentioned in your opening remarks that on a combined entity in 30 months, you were expecting an EBITDA of INR4,000 crores, right? And when I look at your base PCBL business and the capacity expansion that's going on and with the EBITDA you mentioned of Aquapharm, it seems like there is either a way underutilized capacities in Aquapharm or probably you need to do incremental capex to achieve this INR4,000 crores number. So, could you please clarify this?

Sanjiv Goenka: No, no. There's -- what I've told you is based on where we are, okay? And earlier, not in today's call, but earlier I talked about the whole PCBL plan of unlocking capacities. And as of now, the PCBL cash flows don't take into account the Tamil Nadu contribution. So far, it's been six months since the plant has started. And last month, we got to about 50% capacity utilization, which gets us to breakeven.

Now let's just look at the whole arithmetic very simplistically. 150,000 tons, INR20,000 per ton, INR300 crores contribution, simple. Then I had talked about oxidized carbon black, which will give us an additional contribution of INR62 crores per annum. Then, our new specialty plant at Mundra will get commissioned in March, it's virtually done with the finishing stages of that plant or within March, let me put exactly. That again, should give us significant additional contribution. And I'm not talking about anything else that we do. So, this year, our EBITDA in PCBL should be, as it stands, INR980 crores. Just add these numbers to that, okay? That takes you to whatever it does.

And I'm not talking of any further expansion if that happens, which is going to happen, then it's more. Aquapharm capacities as they exist, the forecast are 380, 430, 525. Whatever expansions happen will be over and above these, whatever value additions happen will be over and above these. So, when I'm talking of INR4,000 crores EBITDA for FY'24, FY'25, FY'26 combined, it is on what we have. Whatever additional happens will be over and above, and that will happen.

Dhruv Bhatia: Okay. So, I mean, just again, just a clarification here with what you just mentioned with the numbers of Aquapharm maybe two years down and of PCBL, that comes up to roughly about INR1,800 crores, INR2,000 crores. And over and above that is that implying that this includes some acquisitions in that INR4,000 crores of EBITDA? Or does it include...

Sanjiv Goenka: No, no. This is as is. As I said, the chemicals for the electrical vehicles, which we are very hopeful of concluding that will add to it, okay? We can just do marginal capex with Tamil Nadu and increase the capacity by 90,000 tons, that will add to it. Any expansions at Aquapharm will add to it. Sorry?

Dhruv Bhatia: There still seems to be a very big gap between the INR2,000 crores EBITDA and the INR4,000 crores. So, I'm just trying to add, I mean, even if you add...

Sanjiv Goenka: No, no. Where is the gap?

Dhruv Bhatia: Sir, you mentioned INR1,200 crores to INR1,300 crores PCBL and whatever over and above, you can...

- Sanjiv Goenka:** Per year, per year. Simple. I'm giving you a number specific. INR1,360 crores for FY'24 combined as is; INR1,530 crores, FY'25; INR1,750 crores, FY'26.
- Dhruv Bhatia:** Okay. So combined of three years will be INR4,000 crores of EBITDA.
- Sanjiv Goenka:** That's exactly what I'm saying. As is. And the actual will be much higher than that. So I'm giving you assuming there is no equity raising over the next 12 months and assuming that there's debt the cash flows of the combined entity is still enough to pay the entire debt within 30 months. That may not be the scenario, the scenario might be a mix of equity and cash.
- Dhruv Bhatia:** Sure. Sir, the second question is because this acquisition value is about INR3,800 crores, my assumption would be that there would be a fairly decent amount of goodwill accretion. So could you quantify what type of goodwill accretion -- because I can see that in FY '21, the dated number where the net worth was just about INR1,000 crores. So what type of goodwill accretion will you see?
- Sanjiv Goenka:** You do the -- net worth is about INR1,000 crores. That is a fact. But chemical companies are today being traded at multiples which are -- the industry average is well above 20. So, I mean you talk of goodwill, you talk of, however, but it's a question of opportunity and the opportunity for growth and whether this multiple of 9x or 8.5x FY'25 earnings can actually take you can get over a period of time or multiple of 15, 16, 18, 20. Now that is a critical question.
- Dhruv Bhatia:** Understood. So is there any number you can quantify of the goodwill that will get accreted?
- Sanjiv Goenka:** I mean we paid INR3,800 crores. The current net worth is INR1,000 crores.
- Dhruv Bhatia:** Okay. Fair enough. Sir, last question was on -- could you quantify the top 5, top 10 customer concentration? Because you mentioned the big...
- Sanjiv Goenka:** So those are the ones. Procter & Gamble, Unilever, Henkel, Reckitt. And bulk of the suppliers, sorry?
- Dhruv Bhatia:** The revenue contribution to -- of these customers to your overall top line?
- Sanjiv Goenka:** Well, these are the bulk customers, but I don't have this number specifically yet. But very soon, we'll be in a position to share these numbers with you.
- Moderator:** Thank you. Our next question is from the line of Riya from Aequitas Investments. Please go ahead.
- Riya:** Sir, my first question is, you said that the player is world number two, so is this in all the three segments which you broadly classified or is it just in phosphonates?
- Sanjiv Goenka:** No, it is in phosphonates.
- Riya:** It's in phosphonates. And do we have any such company, which is a peer competition to it?

Sanjiv Goenka: Yes, there is one company called Italmatch.

Riya: Sorry, could you spell it out?

Sanjiv Goenka: I'm not sure the spelling, but I'll presume it's I-T-A-L-M-A-X.

Riya: Okay. And my second question is in terms of the geographical contribution since you said that the majority part is in US. So, I would assume that more than 50% is US contribution and rest would be India and Saudi?

Sanjiv Goenka: I don't have the geographical contribution with me. But Kaushik, would you have that now? I think the revenue wise, 65% is US, 18% Europe and 9% India.

Kaushik Roy: Yes, absolutely.

Riya: Sir, nothing from Saudi as of now?

Kaushik Roy: Saudi is at 7%, and it is basically a place for production, it's a hub for production.

Riya: Okay. Got it. Got it. And in terms of phosphonates, what will be the capacity and what will the market size?

Sanjiv Goenka: Kaushik, would you like to elaborate on this?

Kaushik Roy: Yes. Market size of phosphonates globally is 250 Kt, and the capacity of Aquapharm is -- the total is about 130 Kt and out of that, 80% is phosphonate at this point of time.

Riya: Okay. So, around 100 Kt would be our capacity, out of the 250 Kt?

Kaushik Roy: Yes. We are one of the top two players. As Chairman just mentioned, the other one is from Italmatch from Italy and the spelling is I-T-A-L-M-A-T-C-H, Italmatch.

Riya: Sorry, could you -- you're not audible?

Sanjiv Goenka: It's Italmatch, I-T-A-L-M-A-T-C-H.

Riya: Okay. Got it. And my next question is in regarding -- since in the management commentary, it was said that the chemical business for this year was a little depressed. So, in terms of realizations of the chemical per se like phosphonates, how much drop on a Y-o-Y basis have we seen in the realization of this chemical?

Sanjiv Goenka: Ma'am, this is something that, as I said, we have less than an hour or just maybe in hour into fix the transaction. Give us a little time, and we will be able to share much more detail.

Riya: Sure. And on future acquisitions, which you said in regards to the EV, would it be of the similar magnitude of the current acquisition?



- Sanjiv Goenka:** Don't ask -- we can't say at this stage. Please, we will share with you details. But all I can say is the prospects are very, very exciting.
- Riya:** Okay. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Radha from B&K Securities. Please go ahead.
- Radha:** Hi, sir. Thank you for the opportunity. Many congratulations. Sir, I wanted to understand from the three business verticals that you mentioned, what are the current utilization of three business verticals? And at current capacity, what would be our maximum revenue potential?
- Sanjiv Goenka:** Those are, again, details, which give us a few weeks though we have some numbers which are done by McKinsey. We would really like to go through it ourselves and validate them and come back to you. And we've given you the broad EBITDA numbers based on the existing management forecast, but we will now have to go in, and we will have to evaluate and come back to you with what we believe we can do to the business.
- Radha:** All right, sir. Sir, secondly, I believe the return ratios from this business would be notch of 20% the return ratios. So, given that we are in a down cycle, as you mentioned, in the chemicals business, what could that number look like in an up-cycle scenario?
- Sanjiv Goenka:** Again, those are details which are detailed operational issues, and we are not yet involved with the operation. So, we are not in a position to give you an intelligent response to this. But hopefully, a few weeks from now, we should be in a position to tell you this.
- Radha:** Okay, sir. And sir, just one last question. You mentioned the margin profile -- EBITDA margin profile 20% for us. Any comparison have you made with respect to the competitors, what kind of margins they are making?
- Sanjiv Goenka:** So, this is a global leader and the difference in the market share is marginal actually. Italmatch is slightly higher, I think 1% or 2% higher than us. So, it's very, very marginal. And, they're both very comparable companies. But -- we will have very detailed reports out to help you with analysis very soon. But -- an hour into the transaction, there is only so much that we can say. I mean -- and that's -- there is only so much that -- I mean, we know what we know, but we will have to get into much more detail to give you very, very specific data.
- Radha:** All right. Sir, since you mentioned about the market share, just wanted to ask, you have any numbers handy in terms of market share?
- Sanjiv Goenka:** I mean, I hope our market share will increase.
- Radha:** All right. Okay. Thank you and all the best.
- Sanjiv Goenka:** Thank you.

- Moderator:** Thank you. Our next question is from the line of Shiv Chanani from Baroda BNP Paribas Mutual Fund. Please go ahead.
- Shiv Chanani:** Hi, good evening. A couple of questions. One, could you give us some more detail on the payment schedule, please? I'm just trying to understand, I think if I heard you correctly, you said that the overall payments will be made over next 18 months to 20 months. So, I'm just trying to understand, how the cash flows will pan out...
- Sanjiv Goenka:** No. I think, I knew you got me wrong, maybe. What I said is that within the next three months, we hope to close the transaction, which is when we will make the payment.
- Shiv Chanani:** Okay.
- Sanjiv Goenka:** And over the next -- over the next 30 months, the cash flows from the two combined businesses would be more than enough to pay this entire money.
- Shiv Chanani:** Fair enough. So, there are no milestone payments based on certain numbers being achieved?
- Sanjiv Goenka:** No.
- Shiv Chanani:** Okay. Understood. And secondly, on the competition side, are there any Indian companies as well competing?
- Sanjiv Goenka:** No. Again, specialty chemicals are specialty chemicals. There are very few companies which operate in this space, globally. And that is the advantage of having specialty chemicals and having companies like this, that's why you can get 35% margin.
- Shiv Chanani:** Fair enough.
- Sanjiv Goenka:** That's why in water soluble polymers, you get 35% margin.
- Shiv Chanani:** Right. Understood. Yes. And lastly, when I look at the Italmatch presentation for the nine month, if I understand correctly, the PPA segment is the one which probably competes with your segment. And there, I can see almost a 25% decline in volumes and a 28% decline in revenues for the nine month. So, how should we read into this?
- Sanjiv Goenka:** But that is why the Aquapharm performance for the last six months has been low, which is the industry trend. But as I said, it seems, it is reversing. And -- but again, we are not yet as knowledgeable on the industry as some of the research analysts would be, give us some time, and we can come back to you with far more reliable forecast. I mean these forecasts are reliable. And as I said, they've been validated by McKinsey and other consultants. But -- for us to get into this kind of detail one hour 15 minutes into the transaction, just request for a little more time, please.
- Shiv Chanani:** Fair enough. I mean, can you just share that the first half has the decline been similar, 20%, 25% compared to Italmatch or has it been different for...



Sanjiv Goenka: Well, I don't think it's -- there has been a decline and we shared the absolute numbers with you, the decline has been in the range of about 20%, 25%, yes.

Shiv Chanani: Okay. Fair enough. That helps. Thanks a lot and all the best.

Sanjiv Goenka: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. On behalf of PCBL Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.