"PCBL Limited
Q2 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY2024 results conference call of PCBL Limited hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain. Thank you and over to you Mr. Jain!

Sanjesh Jain: Good afternoon, everyone. Thank you for joining on the PCBL Limited's Q2 FY2024 Results Conference Call. We have PCBL management on the call represented by Mr Kaushik Roy –Managing Director, Mr. Raj Gupta, Chief Financial Officer; Mr. Saket Sah, Head Investor Relations; 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: Thank you so much and good afternoon, everyone and a very, very warm welcome to each one of you to this call. First of all, I would like to wish a happy festive season ahead and additionally I would like to say that some of the points, some of the statements made in this call maybe forward looking and a disclaimer to this has been included in the investor update shared with you.

Now coming to the performance of the organization. PCBL reported a strong quarter with the highest ever volumes and best ever quarterly financial performance despite the worsening geopolitical scenario and economic issues. During the quarter, our consolidated sales volume was 1,30,111 metric tonnes, which is up by around 14% on year-on-year basis. While consolidated revenue from operation was Rs.1487 Crores, the drop in revenue is primarily on account of drop in crude price from an average of $112 a barrel to $88 a barrel year-on-year basis. EBITDA grew by around 25% year-on-year to Rs.240 Crores translating to an EBITDA margin of 16%. PBT stood at Rs,172 Crores while PAT increased to 123 Crores. Consolidated EBITDA/MT stood at Rs.18,427. We have already shared with you that we have commenced our commercial production of the final phase of Chennai plant which is 84,000 metric tonne per annum. With this our total installed capacity of the company now stands at 7,70,000 MTPA gross. We have also commissioned the cogeneration captive power plant at Tamil Nadu site having a capacity of 12 megawatt. With this the total cogeneration power capacity stands at 110 megawatt. During this quarter PCBL Tamil Nadu achieved production volume of 9410 metric tonne and a sales volume of 9008 metric tonne which is roughly 50% of capacity available during the quarter. We expect further ramp up of Tamil Nadu facility with approvals from major customers expected over a period of next few weeks. Of the total sales volume domestic sales volume stood at 82,276 metric tonnes while international sales volume stood at 47,835 metric tonnes.

Moving on to our segmental performance, tyre accounted for 79,793 metric tonnes. Performance chemicals reported sales volume of 34,744 metric tonnes. We also achieved specialty sales volume of 15,574 metric tonnes, which is the highest ever in our history. We continue to expand our product portfolio and customer base. The volume with our recently launched Energia brand is gradually picking up. Samples have also been sent to one of the major EV battery manufacturers for bulk trial purposes. We also achieved the highest ever power generation and sales volume during the quarter. Power generation increased from 156 MU in Q2 FY2023 to 167 MU during the quarter with external sales volume of 103 MU as against 95 MU in Q2 FY2023. PCBL's average realization stood at Rs.4.06/kWh. With commissioning of 12 megawatt CPP at Tamil Nadu, power generation and sales volume would increase further going forward. PCBL also secured two patents in relation to oxidized and surface-modified grades, which further strengthens the specialty portfolio of the company. Oxidized grades have applications in ink and coating applications while the surface-modified grades improve fuel efficiency and tyre life. Long-term prospects of specialty segment look very positive and we believe that there would be adequate business potential to sustain the growth momentum. Considering the changes in global supply chain and consumption pattern, demand and margins in this segment should continue to remain strong. Structurally we are increasing resource allocation to this segment.

Let me now talk about current market scenario and outlook. Domestic tyre segment demand continues to remain robust on the back of healthy performance of both OEM and replacement segment. We expect the upcoming festive season to provide further boost to auto sales. Industry's long-term demand supply scenario continued to look favorable. The industry is going to remain in a tight supply situation for years to come. Only one major concern that remains in the worsening geopolitical scenario while we do not have much trade with conflicting countries there may be indirect impact due to trade route disruptions, high oil prices and inflation. We remain watchful of the developing situation and continue to work on strengthening our supply chain, improvement in our product mix, and cost optimization initiatives within the company. With this I conclude and open the floor for your queries. Thank you so much.

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

Aditya Khetan: Yes, thank you for the opportunity. Sir first question is onto the specialty black volume on quarter-on-quarter basis there is almost a 30% jump into specialty black volume but despite this our gross spread has been almost flattish like I believe this is commanding almost two times the gross margins as compared to the conventional grade so this jump in volumes has not been translated into your gross spreads?

Raj Gupta: The gross spread has gone up. What you are looking at is the consolidated numbers and Tamil Nadu still is not fully operational. Though we commissioned the line towards the end of September we still do not have approvals from major customers. It is more of spot market sales and realization is a tad less than what normally we get in PCBL so that is also kind of having a pulling down effect on the gross margin. But having said that overall gross margin has gone up on a standalone basis, and which will be more reflective of the change in product mix. Our gross margin per tonne has gone up from roughly Rs.33,700 to Rs.34,700, so there is around Rs.1000 improvement in the gross margin.

Aditya Khetan: On quarter-on-quarter basis also the domestic sales volume has been flattish so what is the reason for that?

Raj Gupta: Domestic market continues to remain a little oversupplied, lot of capacities came up in last two years and therefore we are pushing more material in overseas market.

Aditya Khetan: Any recent competitors which have expanded the capacity recently?

Raj Gupta: In last two years most of the manufacturers added capacity, Epsilon capacity came up, Continental added capacity, Himadri added some capacity, BKT added capacity and we also added capacity.. if you look at our performance from overall capacity utilization perspective, we are almost operating, if you leave aside the Tamil Nadu plant which has got recently commissioned) most of our facilities at almost full capacity.

Aditya Khetan: On to the gross spread guidance like you had said earlier that that would improve by Rs.1 per kilo for the next 2 to 3 years so does that hold right now because currently only we are standing at a very high spread number so that will remain constant or how you see that going ahead?

Raj Gupta: Long-term guidance remains as is. There is no change in long-term guidance and we believe that we should be able to deliver that.

Aditya Khetan: Last question from my side. On to the export market I believe we are selling almost 15% to 20% to Europe and some of the quantities also into the United States so we are facing some issues like demand issues or any sort of short-term hiccups which is like holding back your volumes over there and that could improve over the short term like how is the trend and demand into this international market?

Raj Gupta: This should be looked at from two different point of view. One is long-term strategy of the company - so in Europe we did not have much of the market and structurally we are trying to become big in Europe. So going forward if you are talking about next four to five years perspective, Europe certainly has lot of potential and going to become big market for us. In short term, because of all the volatilities which are there in the market, our objective is to ensure high capacity utilization. So whichever geographies offers scope and potential we will move our materials there.

Aditya Khetan: So currently the markets are weak or..

Raj Gupta: Geography wise … in the interim I think, but structurally we are focusing big way on Europe and therefore we have also opened up our own offices in a number of countries there.

Aditya Khetan: Thank you. That is it from mine.

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

Riya: Thank you for giving me the opportunity and congratulation on good volumes and specialty after a long time. My first question is in regards with demand coming from the international market, we are seeing volume growth here so which geography are we seeing this particularly I suppose you just mentioned about Europe so could you elaborate more?

Raj Gupta: We are present in more than 50 countries now. Like I said all geographies are important for us but we are trying to focus more on markets which holds bigger potential and where our market share is still not as high as we would have wanted. In the interim, till the time these global trade disruptions or slowdown is continuing we will have to ensure higher capacity utilization by looking at opportunities wherever it is available and structurally in some of the geographies we see big potential where we are investing in our own supply chain capability which will create foundation for larger volume in these geography for us.

Riya: Right so this particular quarter no one geography contributed majorly for the growth?

Raj Gupta: No, it is a mix of all the countries and Asia Pacific still remains big for us.

Riya: Asia Pacific was the major?

Raj Gupta: Yes it is major. It is accounts almost 70% of market of overseas market.

Riya: In terms of specialty black, newer capacity and additional 20,000 phase two when do we expect that to come?

Raj Gupta: It will take I guess about a year's time.

Riya: So maybe around October 2024?

Raj Gupta: Yes around four quarters' time.

Riya: Do we see this kind of 16,000 tonnes quarterly run rate for specialty to sustain?

Raj Gupta: We will hold on to our yearly guidance. I think we should be able to deliver that.

Riya: Because I think for Q4 we had guided for 16,000 so we have already achieved that so just wanted to have a true sense for it.

Raj Gupta: As I said we hold on to our guidance.

Riya: In terms of margins like specialty since we have got two new patents could you elaborate more on that, what kind of process patents are there, any quantitative numbers if you could give across that what kind of cost saving or something like that value added would give us?

Raj Gupta: These are kind of newer grades in the market and the potential for volumes in these grades would increase gradually. As of now based on our capability, we see may be volume of 6,000 tonnes annually. In terms of market potential, I am talking about us specifically, so initially it will be about 2000-3000 tonnes and in two to three years time we expect to reach 6-7,000 tonnes.

Riya: Thank you. That is it from mine.

Moderator: Thank you. The next question is from the line of Jatin Damania from Svan Investment Managers. Please go ahead.

Jatin Damania: Thank you for the opportunity and congrats on good set of numbers. Sir carrying on to the previous participant's questions in terms of the patented products , now since you indicated that the volume will be6000 per tonne but can you help us in understanding what would be the margin or the EBITDA per tonne as compared to the current product mix on the patented product?

Raj Gupta: I can give you an indication because it is a recently launched grade. We have just patented it and just introduced it in the market. Our expectation is that it will be around maybe $1200 to $1300 kind of contribution per tonne.

Jatin Damania: So that will be about 4-5x at the current base rate you can assume it right?

Raj Gupta: Yes roughly.

Jatin Damania: Second question now with the ramp up of Tamil Nadu and the Chennai facility that will be starting in October 2024 so if one were to look at the longer term horizon of 4 years to 5 years down the line what are the volume growth drivers one should assume, are we planning to look at some acquisitions or looking at some another round of expansion of Tamil Nadu or Chennai for the base grade and the specialty grade?

Raj Gupta: With the kind of potential, which is there in the market, we believe that we will have to keep adding capacity every year. Sometimes it can be through Brownfield, sometime it could be Greenfield. And in terms of inorganic opportunity if something comes up, there is nothing available in the market as such, but if something comes up at a valuation which is acceptable to us and if the portfolio is right, we may also consider that.

Jatin Damania: With the current land bank what we have, what is the incremental expansion we can carry on in the base grade and the specialty grade?

Kaushik Roy: I will tell you both rubber black as well as specialty. Down south in Tamil Nadu we can add another 90,000 tonnes of Brownfield capacity. It will be mostly rubber grade for tyre application and industrial application. As far as specialty is concerned, we are already working on this additional capacity in Mundra which should be ready within a year's time and in parallel we have started to look at the possibility to add something more over there. We have still not decided on the exact capacity or the reactor design so cannot make any comment beyond that at this point of time on specialty.

Jatin Damania: So as of now you can probably go with 20,000 tonnes of specialty until October 2024 and rubber black of incremental 90,000 whenever we decide in the future, right?

Kaushik Roy: 90,000 additional rubber black facility over a period of say next year or two years' time maximum.

Jatin Damania: Sure Sir. Thank you. That is all from my side. I will come back in the queue.

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

Sanjesh Jain: Good afternoon, Sir. Thanks for taking my question. Starting with our energized brand which is a battery chemical earlier I think a quarter or two back you said that we are very close and now we have supplied the sample can you can you elaborate more particularly in battery chemical what is the component we are looking at it, what is the present opportunity, how critical that element is and what does our internal assessment talks about our ability and what are the other opportunity within the battery if at all we are looking beyond this product?

Raj Gupta: So Sanjesh in market currently there are three types of battery technology. One is the old technology, which is dry cell, the second one is lead acid battery which is second generation battery technology and the latest one is lithium-ion technology which is the ion batteries with high power storage and all. We already have done great work catering to the first-generation battery dry cell. What we have developed now is going to cater to the second generation and the third-generation battery. See there are different kind of grades which can be manufactured and we are targeting grades with more capacity so the grade that we have launched is kind of interim capacity or little less than where we would have wanted the conductivity in these particles. While this will cater to lithium-ion batteries also but this will be like low end of lithium batteries not the really high end Tesla kind of batteries. Those grades are still at the lab level in our R&D lab and this Energia grade that we have launched, we have already given the samples to one of a very large EV manufacturers who also is into battery cell manufacturing. Lab level testing was successful at their end and now they are testing it at industrial scale.

Sanjesh Jain: Fair enough, fair enough that is quite useful. The second one is on the specialty there has been a sharp acceleration in the volume what is driving it more of a coating or pigment which is rubber what within the specialty is driving this growth and what are in the catalyst because it has been a very smooth and steady growth but it looks like there is a step of jump this quarter can you elaborate more on that?

Raj Gupta: **O**ne is we got additional capacities Sanjesh during the quarter. This Mundra specialty line getting commissioned, that gave us this capacity cushion. Second, generally demand for high end things have gone up, be it fabric, be it automotive and all so that is where specialty gets consumed. Moreover our market penetration has also increased. We have added a number of customers. The foundation was already laid when we gave the annual guidance about the volumes, etc. Most of the work was already done so now that we have capacity, we are able to sell more volume.

Sanjesh Jain: The guidance was that we will sell 10,000 metric tonne more versus previous quarter and in one quarter we have sold 5000 more it appears that we are way ahead of our guidance.

Raj Gupta: Our annual guidance Sanjesh for 50,000 to 55,000 tonnes of specialty and we remain on track so the first 6 months volume is about close to that 27,500 tonnes.

Sanjesh Jain: The number is 10,000 additional but got the point and number three on the operating cost particularly now that the Tamil Nadu has come in but our total operating cost sequentially has come down. Can you explain that Raj how is that?

Raj Gupta: Our operating cost structure remains very lean and cost structures if we were to discuss not only operating but overall cost structure, we expect about Rs.45 Crores of depreciation on a full year basis roughly about Rs.35 Crores of interest cost and another 40 odd crore of plant maintenance cost, manpower etc.

Sanjesh Jain: If you look at other expenses last quarter was Rs.149 Crores this quarter is Rs.144 Crores while we have operated the first phase of Chennai plant for the full whole quarter this quarter this was not here for the last quarter and yet our other expenses has declined by 5 Crores.

Raj Gupta: You are talking about the other expenses right so last quarter there were some fees, etc., also which was paid during the quarter and which appeared here which was more of a one-off.

Sanjesh Jain: Got it so this Rs.144 Crores is a steady state from here on or because of phase two there will be a little bit more increase?

Raj Gupta: So, the current quarter is reflective of the annual run rate.

Sanjesh Jain: This will be for the full operational plant, right?

Raj Gupta: Yes.

Sanjesh Jain: We were supposed to commission 24 megawatt of power we have started with 12, the other 12 should commission soon?

Raj Gupta: It should take us about 3 to 4 months more.

Sanjesh Jain: That is fair and one last question on the global market. Europe is supposed to remove that quota of buying from Russia starting I think if I remember like July of next year are we in active discussion with the large player European to have long-term contract for buying carbon black and hence ramping up Chennai facility faster than what we thought. I think even in this quarter we are already at a 50% utilization which I think is a very good run rate to start with, you expect this ramp up to be much sooner than what we have earlier anticipated?

Raj Gupta: The major hurdle now in way of capacity utilization, I would say, is approval from major tyre customers. And it is more of the process, which is taking time, not any problem as such which is delaying the process. The normal process itself takes about two to three quarters time for all the approvals to come by and tyre accounts for almost 65% of volumes. We believe in next three to four quarters' time we should reach 80% capacity utilization and we expect gradual ramp up from here on so whatever volume we have been able to do in current quarter, next quarter volume should be better from the current quarter and fourth quarter should be even better.

Sanjesh Jain: So, the emphasis is what more domestic customer or more European customer, Chennai is a sweet spot for us right considering the port we are very close to the port?

Raj Gupta: Geographical mix Sanjesh would remain more or less similar, so maybe about two third is domestic market and one third is international market. In the interim, till the time we have approval from all the tyre customers in the domestic market, we are just trying to utilize capacity by selling more in international market.

Sanjesh Jain: Got it. Fair enough. Thanks for answering all my questions and best of luck for the coming quarters.

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

Dhiral: Good evening, Sir. Thanks for the opportunity. Sir in next three to four quarters you talked about Tamil Nadu plant will reach 80% utilization am I right?

Raj Gupta: Yes.

Dhiral: So, this is overall 147,000 tonne you are talking about?

Raj Gupta: This product mix and all the real capacity would be somewhere around 1,25,000 to 1,30,000 tonnes roughly 10,500 tonnes a month roughly.

Dhiral: Got your point Sir and any debt reduction plan in next two or three quarters since we have generated a very good cash flow?

Raj Gupta: If you look at our debt equity ratio leveraging is hardly there, I think 0.22 on a standalone basis.

Dhiral: So, going ahead our working capital which is there at our short term borrowing which is around Rs.550 Crores that would remain same or we would like to use from the internal accrual?

Raj Gupta: If you look at total debt, we had on a net basis we had just about Rs.650 odd Crores of debt as of September 30, 2023, and the cost of debt is also very competitive. Our average borrowing cost is sub eight, long-term, short-term all included. And like we mentioned that we are on a high growth path in our mix, five to seven years we expect to add capacity almost every year, so some debt would remain on book. But philosophy wise we want to go down on debt. Maybe once we are through with our capacity expansion programme, then we will pair debt completely.

Dhiral: Just last one question Sir for the domestic market particularly do we expect any higher volume growth at least for the next few quarters since the capacity has been added even by the other peer as you talked about so what kind of volume growth we are expecting in domestic market?

Raj Gupta: I would not say domestic or international but our focus would be to ensure high-capacity utilization and the guidance that we gave for the full year we are on track to achieve that.

Dhiral: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.

Sailesh Raja: Yes, thanks for the opportunity. Sir I have two questions you are saying only gradual ramp up production from Chennai facility but due to lower tax rate and also expect a better production yield in Chennai facility is it possible to shift the production from existing plants to new Chennai facility, also I need to understand basically how easy to get the customer approval for shifting the production and how long it will take to get customer approval for change in production facility and also with each customer we will be taking approval for all our facilities or particular customer will be taking approval only from the particular facility will be supplying, so how this will work in our industry can you explain it will be helpful?

Raj Gupta: You are right Sailesh that Tamil Nadu from tax point of view is more efficient. And when I say gradual ramping up of volume it is only because of the process involved in the grade approval right- the quality approval by the major tyre customer. So even if we vacate PCBL capacity does not mean that we can utilize Tamil Nadu capacity and we believe in next 6 to 8 weeks' time these approvals should start coming in. And once we have these approvals then the ramping up would be faster. When I say 4 to 6 quarters it is little conservative maybe we will be able to achieve faster ramping up. We feel that there can be few things which we may not factor in now and therefore it is better not to create expectations of full capacity utilization before that. But our focus would be to ensure to get those approvals faster and utilize capacity to the maximum as possible.

Sailesh Raja: Great Sir. Sir my second question for the incremental volume growth for next two years so how much you are betting on new customer wins and how much it will come from increasing share of business from existing customers in percentage terms if you could give us it will be very helpful and also in Europe we are expecting orders from new customers or again their increase in share of business with existing customers and also can you share what is our landed cost there in Europe versus Russian carbon black next two years how much volumes you are expecting from Europe Market due to this ban on Russian carbon black from next year can you explain this?

Raj Gupta: Sailesh so far as our customers are concerned, domestic or international, we are already there. We have existing relationship with most of them and therefore, in that space, new customer addition will not be many; there will not be too many. New customer addition is mainly happening in the area of performance and specialty grades where we are also launching new grades every year. In terms of potential in Europe, like I said that we look at Europe as geography with large potential. And we have been in last 3, 4 years started investing in our supply chain capability there. So that holds potential. Our aspiration is to increase our volume from the current level to at least 2x in next two years' time .And it is growing rapidly, like I said 2 to 3 years back we were hardly doing any volume, our share of Europe in overall international volumes was just about 3-4% and from there last year we clocked 14%. Europe currently is going through a slowdown so therefore, this year may not be the right year to track performance in terms of volume growth, etc., but structurally it holds lot of potential and that is how we are looking at these geographies. We are building up and setting up our own offices. We are investing in distribution capabilities.

Sailesh Raja: What is our landed cost difference between PCBL or any Russian carbon black?

Raj Gupta: We are competitive. Landed cost would also depend on what grade we are supplying. In terms of logistics cost we incurred just about $40 to $50 a tonne and which is not much because even when we are supplying in domestic markets to tyre customer,, our average cost works out to around Rs.2500 to Rs.3000 so if we are incurring $40 to $50 it does not have impact on the margins.

Sailesh Raja: Thanks.

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

Balasubramanian: Good evening, Sir. Thank you so much for the opportunity. I am new to this company. Sir, I just want to understand how much we have invested for this Chennai and Mundra plant and what kind of asset turn we can expect in these investments?

Raj Gupta: Mundra this capacity addition is happening in two phases. One is already commissioned and the second will come up in a year's time. Between these two lines we estimate a capital outlay of about Rs.330 Crores to Rs.340 odd Crores. A good part of that is already spent about Rs.220 odd Crores is already spent because lot of infrastructure is common. Tamil Nadu, we expect the overall project cost to be about Rs.950-1000 odd Crores but then again, the spending that we are doing will also kind of have some kind of civil infrastructure creation for the next phase of Brownfield expansion.

Balasubramanian: Sir what kind of asset turn we may expect in those investments?

Raj Gupta: On a full capacity utilization basis and at current crude prices we expect to generate about Rs.1400 Crores kind of revenue on a full year basis from Chennai.

Balasubramanian: Including both investments right Sir this Rs.950 Crores and another Rs.340 Crores?

Raj Gupta: That Rs.200 Crores is Mundra this is not Chennai. So, I am talking about Chennai and on Mundra side we should be able to generate roughly about Rs.200 Crores kind of revenue.

Balasubramanian: Got it. Thank you.

Kaushik Roy: Annual revenue from that facility.

Balasubramanian: It is increased?

Raj Gupta: From the phase one facility right.

Balasubramanian: Overall in Mundra plant capacity like asset turn or incremental revenue around say Rs.200 Crores incremental revenue from Mundra facility or it is only for phase one or it's included in both?

Raj Gupta: Phase one. Rs.200 Crores.

Balasubramanian: What about phase two Sir?

Raj Gupta: Phase two the line is still under design, so it will also depend on the product mix and all. We expect a similar kind of revenue from that line also.

Balasubramanian: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for this opportunity. Sir first of all I just wanted to understand this quarter our EBITDA per tonne was around Rs.18,200 odd and I think the mix of specialty was also high in this quarter so just wanted to understand what sort of sustainable EBITDA per tonne we are looking at maybe this year or next year as we also tend to increase the share of specialty volume?

Raj Gupta: So, this is sustainable. The market is not in best of the situation currently. The domestic market remains oversupplied and international market we all know there are problems. There are geopolitical issues, there are growth issues with global economy, right, and therefore whatever we have made is not only sustainable but we expect that next three to four years because of changing product mix, increasing efficiency and operating leverage we can further improve on it.

Deepak Poddar: Would we look to target 20,000 kind of a range in next two to three years?

Raj Gupta: Yes, our guidance was 2027 we expect it to be around that level. It may happen before that also.

Deepak Poddar: Fair enough and in terms of volume overall at the company level what sort of growth we are expecting over the next two years I think we were at about 4,50,000 right in FY2023 and we do look to improve our capacity utilization as you mentioned in one of the comments?

Raj Gupta: So, we believe that next five to six years we can grow at lower double digit, may be 12% to 13% kind of growth.

Deepak Poddar: 12% to 13% volume growth CAGR right?

Raj Gupta: Yes.

Deepak Poddar: That is very helpful Sir. I think that is it from my side. All the very best to you. Thank you.

Moderator: Thank you. The next question is from the line of Vallabhee Rungta from RoboCapital. Please go ahead.

Vallabhee Rungta: Sir other day I was reading this article like which says that some of your clients are talking about switching to silica instead of using carbon black so I would like to have your view on this and what price difference this silicon carbon black per kg or per metric difference you are seeing if you could guide on that?

Raj Gupta: See silica has been there since ages. This is not a newly discovered material and while carbon black has both adhesive and binder ability, silica on its own does not have that adhesive capability and therefore it requires to be mixed with some other additives for it to be used in tyre compounds. Also, it is very corrosive for tyre equipment and therefore, even now, most of the tyre companies are using only very small portion of silica in their tyre compound and that too from showing that they are adopting green practices. From that perspective it is not a replacement in real terms.

Vallabhee Rungta: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Omkar Kamtekar from Bonanza. Please go ahead.

Omkar Kamtekar: Thank you for taking my question so first question is say about three or four quarters down the line what would be the blended capacity utilization of all say our total capacity currently stand at 770 metric tonnes so what would be the one year down the line blended capacity utilization?

Raj Gupta: I guess in four to six quarters time we should be reaching our full capacity utilization but then this 770 is the installed capacity which can be achieved only if we were to manufacture one grade all the time. The mix that we have we can go up to maybe 625,000 to 630,000 tons, that is maximum that we can achieve. In four to six quarters' time, we should be reaching the full capacity.

Omkar Kamtekar: Would it be possible to give a segment wise capacity breakup as to how much of the total capacity is for specialty black, rubber black and others is it possible?

Raj Gupta: Specialty as of now we have 92,000 tonnes and in a year's time we will have another 20,000 tonnes. I am talking about in terms of the gross capacity right the breakup of 770 and the rest is capacity which is fungible between tyre grades and performance grade.

Omkar Kamtekar: Okay so 92 is the current specialty black plus 20 which will be coming about in a year's time and the rest is fungible that is correct okay and finally with respect to from a longer term horizon this was covered to a certain extent by the comment in the previous question so 20,000 could be achieved say by FY2025 and it will be an optimistic thing based on the crude oil being benign and our growth being in double digits so we can reach say a quarterly run rate of revenue closer to Rs.1600 Crores or Rs.1700 Crores would that be a fair assumption?

Raj Gupta: Yes, that is possible so if crude were to remain stable then volume growth will reflect on the topline. If we are saying 12% to 13% CAGR volume growth that would reflect on our topline if crude prices were to remain the same and if there was no change in our product mix.

Omkar Kamtekar: So, product mix would also play a big role yes you are right on it?

Raj Gupta: Our product mix is also improving.

Omkar Kamtekar: On the product mix the specialty black what is the EBITDA per tonne on the specialty black can you disclose it?

Raj Gupta: We roughly make about 2 to 2.5x of our tyre grade margin.

Omkar Kamtekar: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Harsheel Mehta from Mehta Vakil and Company Private Limited. Please go ahead.

Harsheel Mehta: Good evening, Sir. Lately we have been reading a lot about the chemical industry being affected in general by dumping by Chinese companies is this something that affects us for our portfolio products or is it something that the Chinese industry is no longer as competitive or carbon black and specialty black?

Raj Gupta: See in our space what we are discussing is that their cost structure is adversely changing for them and therefore last five to six years they have not been very prominent in terms of pushing their material in India and surrounding geographies. 30% to 35% of our volumes we are selling in the overseas market, which is a level playing field. Even in India there is no antidumping duty now, despite that, we could, not only increase our volumes in overseas market but also improve our margin. So that is a reflection of improvement in our capability and also simultaneously some problems that are there in China. What we understand is that their cost structure is now not supporting this industry and therefore there is a structural consolidation which is taking place. So while they still hold largest capacity globally, but in terms of price competitiveness, they are not where they were five to seven years back.

Harsheel Mehta: Thank you so much.

Moderator: Thank you. The next question is from the line of Mahesh Attal from Attal & Associates. Please go ahead.

Mahesh Attal: Congratulations on a good set of numbers. Basically the thing is that what is the lookout for the Masterbatch industry, we are the biggest supplier to the Masterbatch industry and lately we are seeing that there is a huge demand of black masterbatch coming in the market so what is the growth coming from there and also I was just wondering like we are already supplying to tyre industry and all that industry since a long time, are there any new channels opening up for us as a company where we are seeing that there is huge demand maybe in future it may come up or are you also in talks, as a industry we are able to supply to entire industry as such, I am talking about the opening up of new channels so if you can elaborate on?

Raj Gupta: In terms of opening up of new channel, there are lot of newer solutions that we have been creating through our R&D initiative and earlier like primary use of carbon black were in tyres and rubbers and now it caters to all sorts of different industries. In terms of the latest evolving opportunity, it is the conductive statement. The battery storage industry is growing very rapidly and that creates a large opportunity and that is where currently our company is focused upon. So a lot of work is happening on that front. In terms of your question on masterbatch I will not be able to comment on that. Maybe I will revert to you once I have spoken with our specialty marketing head. Maybe he will have some view on that.

Mahesh Attal: Just to add on to this so when you say that this conductor industry itself is so big that you are also working in that direction so are we just looking at domestic market or we are opening up the entire world markets for this particular segment?

Raj Gupta: No Mahesh we do not consider India as our only market. We are a global company and we consider the entire globe to be our market. Even now almost 70% of our specialty volumes are sold outside India and we have a very strong customer connect and supply chain network outside India globally. In fact so the opportunity is everywhere not only in India.

Mahesh Attal: Do you see that Indian markets growing in this particular segment?

Raj Gupta: Yes, India is also growing rapidly but I think this opportunity is evolving across all geographies ; most of Europe, Asian countries and India included.

Mahesh Attal: Alright Sir. Thank you.

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

Radha: Sir thank you for the opportunity and congratulations on good results. Sir I wanted to ask on that patented products you mentioned that we could do 7K to 8K tonne, now every year in specialty we wanted to increase our volumes broadly by 10K tonnes so is that included in this 10K or it will be over and above that?

Raj Gupta: See when we give long term guidance Radha it is like something where we have very high level of confidence, right, and this is usually a conservative guidance. Now the grades that we have launched and we got patented are grades which got developed in our R&D lab. But having said that every year we are launching some 8 to 10 new grades so it is just part of those new innovation or products which we are developing every year. So I would not say whether this will be outside that guidance which was given to you. Our efforts will be to obviously maximize the opportunity which is there, right, but we believe that 10,000 tonnes incremental volume every year is something that we should be able to achieve.

Radha: The production of this will start from?

Raj Gupta: Production has already started. For these two grades production has already started.

Radha: I wanted to understand now that all the capacities that are expected to be commissioned for this year is done so what would be the maintenance capex expected from this year onwards?

Raj Gupta: We incur about roughly Rs.12 Crores to Rs.13 Crores of maintenance capex per plant every year. Now that we have five plants, it should be around Rs.60 Crores to Rs.65 Crores annually.

Radha: Lastly just wanted to confirm if I heard it right the Chennai plant volumes for first half FY2024 would be 14k tonnes which is 5K in 1Q and the remaining in 2Q?

Raj Gupta: Correct.

Radha: Lastly in Mundra we do have some extra land so for that extra land just wanted to know whether we are looking in future if we do extend after phase two so will we be expanding in specialty products or are we looking for some other new opportunities?

Raj Gupta: In all likelihood it will be a specialty line only.

Radha: Thank you Sir. That is all from my side and all the best.

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