



“Oriental Carbon & Chemicals Limited
Q4 FY’23 Earnings Conference Call”
May 24, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 24th May, 2023 will prevail



**MANAGEMENT: MR. AKSHAT GOENKA – JOINT MANAGING
DIRECTOR – ORIENTAL CARBON & CHEMICALS LIMITED**
**MR. ANURAG JAIN – CHIEF FINANCIAL OFFICER --
ORIENTAL CARBON & CHEMICALS LIMITED**
SGA, INVESTOR RELATIONS ADVISORS

**MODERATOR: MR. DEVEN DHRUVA – STRATEGIC
GROWTH ADVISORS**



Moderator:

Ladies and gentlemen, good day, and welcome to Q4 FY '23 Earnings Conference Call of Oriental Carbon & Chemicals Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

Page | 2

As a reminder, all participant lines will be in the listen-only mode. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Akshat Goenka, Joint Managing Director of OCCL Limited. Thank you, and over to you, Mr. Goenka.

Akshat Goenka:

Good afternoon, and a very warm welcome to everyone. Along with me, I have Mr. Anurag Jain, CFO and SGA, our Investor Relations advisors. We have uploaded our results and investor presentation for the quarter and year-ended 31st March 2023 on the stock exchanges and company website. Hope each one of you had a chance to go through the same.

I would like to start with a big thank you to all our shareholders for blessing the demerger with near unanimous support. We are very grateful for the same. Despite a challenging year, our revenues grew by 18% to INR467 crores, with EBITDA at INR98 crores, a growth of 14%; and PAT of INR44 crores, which is a growth of 9%.

For the quarter, revenues stood at INR104 crores whereas EBITDA grew by 42% to INR25 crores and PAT more than doubled to INR12 crores. This is mainly due to the correction in raw material prices and improved efficiencies. The Board of Directors have declared a final dividend of INR7 per equity share of face value of INR10 each of the company. Total dividend for FY '23 stood at INR14 per equity share.

The automotive industry witnessed a remarkable upswing in '22-'23 attributable towards surge in economic activity and mobility. Sales in automobiles experienced substantial growth with most automakers ramping up their supplies. In April 2023 all segments, including passenger vehicles, 2-wheelers and 3-wheelers displayed growth, highlighting the industry's successful transition to BS VI phase 2 emission norms.

According to the data published by SIAM in FY '23 passenger vehicle sales increased by 27% year-on-year, commercial vehicle sale has delivered 34% year-on-year and 2-wheeler sales increased by 17%. The demand outlook for commercial vehicles continues to remain robust. Increased economic activities and the resurgence in infrastructure and construction projects have been driving truck sales across various segments. The industry has witnessed improved fleet utilization and there is an anticipation of higher replacement demand. These factors contributed to the overall growth in volumes within the commercial vehicle sector.



India has been witnessing an unprecedented economic growth and infrastructure construction is at the heart this wave. A strong pipeline of upcoming and ongoing projects and large programs are underway across sectors, presenting us an unparalleled and never seen before opportunity. The boost in infrastructure activity is further boosting the demand for our products. The Indian tyre industry is currently experiencing favourable conditions benefiting from a combination of robust demand and moderating raw material prices. It is anticipated that the domestic tyre industry will witness double-digit growth in the upcoming fiscal year.

Furthermore, exports of tyres from India is expected to increase by 15% in the ongoing fiscal year, indicating positive prospects for the industry. Many tyre makers are planning to accelerate exports by entering in the PCRA truck and bus radial segment. The content of insoluble sulphur is about 1.7x bias tyres and radial where it improves vehicle fuel efficiency, mileage and lightness. This should further boost the demand for our company. With this, I'd like to hand over the line to Mr. Anurag Jain to update you on the financial performance of the company.

Anurag Jain:

Thank you, Akshat. I will take you all to the standalone financials of the company. Total income for Q4, FY '23 stood at INR103.7 crores as compared to INR111 crores in Q4 FY '22 and stood at INR467.5 crores in FY '23, a year-on-year growth of 18%.

EBITDA for Q4 FY '23 stood at INR25 crores as compared to INR17.6 crores in Q4 FY '22, a growth of 42% and EBITDA for FY '23 stood at INR98.3 crores as compared to INR86 crores in FY '22 a growth of 14%. EBITDA margin stood at 24.1% for Q4 FY '23 and 21% for FY '23.

Profit after tax for Q4 FY '23 stood at INR11.5 crores as compared to INR4.3 crores in Q4 FY '22 and stood at INR43.7 crores in FY '23 as compared to INR39.9 crores in FY '22, a growth of 9% year-on-year. PAT margins stood at 11.1% for Q4 FY'23 and 9.4% for FY '23. With this, I would like to open the floor for questions and answers.

Moderator:

The first question is from the line of Samarth Singh from TPF Capital.

Samarth Singh:

We've seen a decent bounce back in demand from in terms of vehicle sales in Europe, and at the same time, there has been a sort of decline in sales in China. And I think Shikoku mentioned that in their results as well, that they're trying to ship supply out of China to other regions. So, if you can just talk about how good is the dynamic that playing out here for the industry and for all of us here in West India.

Anurag Jain:

So yes, you are right there is a revival and there an increase in demand for vehicles in India, not necessarily globally. As far as China is concerned, there has been a decrease in demand which is now picking up, but still if you look at it from the level of the big demand it is lower. It is also coupled with fact that there has been additions in capacities in China, which means they have surplus material and they would like to ship that out of China.

Samarth Singh:

So are we seeing pricing pressure in the regions that we supply -- in the areas that we supply?

Anurag Jain:

So, prices are seeing a downward trend for 2 reasons. One, of course, is because the raw material



prices have started now normalizing. So therefore, the price increase that we witnessed in the last year, when I say last year, I mean the financial year end and Q1 of this year, where it were maintained, they are now started coming down to align with the lower raw material prices. But further, yes, there is a pressure from China in the Asian countries.

Samarth Singh: And could you give me the freight cost as a percentage of sales for the quarter and for the full year and the same for fuel and power cost as well.

Page | 4

Anurag Jain: So, I cannot give you for fuel and power, but as far as freight cost is concerned, it would be -- just give me a moment. It will be around 12% -- like 12.0%, 12.5%.

Samarth Singh: 12.5% for the year and for the quarter?

Anurag Jain: For the year it would be around that, but this also included a period where the freight costs were remarkably higher because of the global issues.

Samarth Singh: And for this quarter that just ended what would be the freight cost?

Anurag Jain: Normally, it should be around -- just give me a moment.

Samarth Singh: You listed down to around 6% to 7% of it.

Anurag Jain: Normally, it should be around 6% to 7%.

Samarth Singh: Okay. And -- what was this for the -- what was the split between -- revenue split between export and domestic?

Anurag Jain: Well, that figure we do not have and we do not share. But our market share in the total domestic demand was around 55%.

Samarth Singh: domestic market share was 55%?

Anurag Jain: Yes, yes.

Samarth Singh: Perfect, but I mean in your annual report you probably share your exports and your domestic data.

Anurag Jain: Yes. Yes. I'm sorry, we do share I misunderstood your question. So, I don't have that data readily available with me. I will come back to you with that later.

Samarth Singh: Fine. And just on our debt, could you give me a breakup of working capital versus term loan and what do you expect the net debt could be...

Anurag Jain: Sorry, I didn't get your question can you...

Akshat Goenka: Split between working capital and term loan and the total debt.

Anurag Jain: So, my total debt was give me a moment. So, my long-term borrowing was about INR104 crores,



and my working capital was INR55 crores and the total borrowing was INR159 crores.

Samarth Singh: Can we expect that September of this year the long-term to come down to INR50 crores...

Akshat Goenka: Yes, you understood correct. By 30th September we are expecting it -- the long-term to come down of around INR50 crores.

Page | 5

Samarth Singh: My last question. I think sometimes a couple of years ago, you had given us a demand for insoluble sulphur per region. Would you have an updated numbers now between North America, Europe, India and...

Anurag Jain: No, we do not have the latest report with us, though we have our own ideas, but we would rather wait for the report to come and then share it with you, maybe in the...

Samarth Singh: Just the domestic demand what is that as of today ?

Anurag Jain: Domestic demand should be around 25,000 tonnes.

Samarth Singh: And it's still -- domestically it's still a 2-player market, right?

Anurag Jain: Sorry?

Samarth Singh: Domestically it's still a 2-player market?

Anurag Jain: I can't hear you clearly.

Samarth Singh: The domestic Indian market, are they essentially 2 suppliers of insoluble sulphur into the market or...

Anurag Jain: No, no. It's no longer a 2-player market. There was a question about the split in domestic and export. So, in total, about 51% of the revenue was from export. But if we talk about only insoluble sulphur then about 58% was from exports.

Moderator: The next question is from the line of Guneet Singh from CCIPL.

Guneet Singh: I have a couple of questions. What are the volumes for Q4 FY '23? And how do they compare to the same period last year?

Anurag Jain: So, volumes numbers, we do not share. So sorry, I cannot give you those numbers. And as far as comparison with the last year is -- last year is concerned, it was lower, sales volume was lower.

Guneet Singh: Okay. So, volumes in FY '23 are higher.

Anurag Jain: No, the volume in FY '23 are in the same range as FY '22.

Guneet Singh: Okay. And for Q4, are they higher as compared to Q4 FY '22?



- Anurag Jain:** They are lower for Q4FY '23 than Q4FY '22.
- Guneet Singh:** All right. And can you give us an idea about the realizations currently?
- Anurag Jain:** No, it's very difficult because they are -- the current realizations are still settling down. So, it's very difficult, of course, they have come down, that is for sure, basically because of reduction in raw material prices and other things, so realizations have come down. But to give you an exact -- this thing is a little bit...
- Guneet Singh:** Can you give me a broad range, I mean -- realizations currently as compared to, say, the same period last year or quarter-on-quarter?
- Anurag Jain:** Lower.
- Guneet Singh:** And going forward, do we expect the realizations to stabilize? Or do we see them going down, what is the trend currently?
- Anurag Jain:** See, realizations would be a factor of many things. It is a factor of exchange rate. It is a factor of the raw material pricing, it is a factor of competition, right? So, what we more constructively look at are the margins.
- Guneet Singh:** Correct. So, I mean, what kind of margins do we see in FY '24? Do we see the current margins to be the bottom? And I mean, do we see some growth...
- Anurag Jain:** Correct. There will be -- to be in the same ballpark of margins that we have this year.
- Guneet Singh:** All right. So, I mean, we should expect about 20% margins in FY '24 as well?
- Anurag Jain:** No, when we say margins we mean -- we mean margins over variable cost and not the EBITDA margins.
- Akshat Goenka:** We will have one advantage this year and that is the freight rates been lower, so that would add as a buffer.
- Guneet Singh:** All right. So, in terms of EBITDA margins, I mean, what kind of margins can we expect in FY '24? I mean, do we expect improvement?
- Anurag Jain:** If the volumes go up then obviously the -- with the variable margins remaining the same, the EBITDA margin should improve.
- Moderator:** We have a follow-up question from Samarth Singh from TPF Capital.
- Samarth Singh:** I just want a clarification...
- Akshat Goenka:** I just want to add to your earlier question when you asked about 2-player market or more, the balance players that have come in have majorly taken a market share from import, our market share has only come down a little bit. The main impact they have had is on the pricing.



- Samarth Singh:** I appreciate that. And I just want to confirm this number. So, our total sales of -- in the chemical business was INR465 crores and you said 58% of that was exports. Is that right?
- Anurag Jain:** No, when I said 58% that was for insoluble sulphur not for the total chemical business, right?
- Samarth Singh:** Okay. You add your of course you have sulphuric acid business. So, I'm just trying to reconcile these numbers so for last year our domestic sales were above INR220 crores and INR160 crores of exports. And this year, we have done exports of -- could you just give me the export number -- out of the INR465 crores I'm just trying to...
- Anurag Jain:** Can you repeat the last years' number, please? Can you repeat the last years' number?
- Samarth Singh:** Domestic was INR223 crores of sales and exports is INR163 crores for a total of INR386 crores of top line.
- Anurag Jain:** That is a little complex, because my numbers are INR181.7 crores from domestic and INR196.4 crores from exports in total -- totalling to a revenue of INR378.14 crores last year.
- Samarth Singh:** Okay. I thought it was standalone had a total revenue of INR386 crores, okay, got it.
- Anurag Jain:** Yes, total revenue on standalone was INR378.14 crores.
- Samarth Singh:** Okay, got it. Okay, fine. And for this year was -- can you just give us numbers for this year well?
- Anurag Jain:** Sorry?
- Samarth Singh:** Could you give me the same numbers for this year as well?
- Anurag Jain:** This year. So, this year my domestic sales would be INR225 crores including sulphuric acid and export sales would be INR232 crores -- INR231.8 crores to be exact and INR224.99 crores for domestic.
- Samarth Singh:** And Akshat, one question on, I guess, the post-demerger residual investment business. -- is there any more clarity that they are providing minority shareholders on what's your plan there is? And a follow up to that would also be -- I think you would have an investment in Duncan Engineering as well. So, like you've done this very fair demerger of the chemicals business, would there be a sort of demerger of the engineering business as well as sometimes in the future?
- Akshat Goenka:** First, I just want to reiterate your 2 questions. First question is, what is the investment business want to be up to? And second question, I didn't understand something about Duncan you were asking?
- Samarth Singh:** I think the investment business would also have 50% stake in Duncan Engineering. And would there be at some point -- I mean not immediately -- but at some point would there be a demerger of that as well, but the minority shareholders might become the shareholders holders of Duncan?
- Akshat Goenka:** No, I don't think right now there is any discussion or debate on what we are going to do in the



future about Duncan, but I would say at this -- it's a fair assumption that, yes, Duncan would be part of the -- probably investment entity. With regards to what the investment business is going to be up to, I think it would be too premature right now to make any kind of specific comments on that. We already have been doing some trading. There's a bunch of investments that we keep declaring in the annual report, so those are all indicators as to what that business is doing. And of course, there are other opportunities and all -- that are also being explored. But I think the right time to discuss on this would be the post-demerger.

Samarth Singh: Just one last question. What would be the -- assuming you don't do any more growth capex in this year, what would be the maintenance capex?

Akshat Goenka: So as far as maintenance capex is concerned, we do have growth capex, improvement capex and maintenance capex, because we are doing some -- one big project this year to further move on our sustainability journey as well as a cost saving journey. So, including that and including the old carry-forward capex that we had that has not yet hit the balance sheet, it could be in the range of INR14 crores to INR15 crores.

Samarth Singh: INR14 crores to INR15 crores.

Akshat Goenka: Because we expect that this plain simple maintenance capex for company as a whole, I don't see it being more than INR5-odd crores -- INR5 crores to INR7 crores is the general range that I would say is maintenance capex for all the plants together. But every year, we keep doing other projects which help us in our margins and all of those kinds of things.

Samarth Singh: And both our plants, the feed stock for both the plants is natural gas, right?

Unknown Executive: I didn't pick the question?

Samarth Singh: The feedstock for both the plants is natural gas or do you use something else?

Anurag Jain: So are you asking feedstock for both the plants means sulphuric acid and insoluble sulphur or Mundra...

Samarth Singh: I mean Mundra and other.

Anurag Jain: So, feedstocks are the same.

Samarth Singh: Which is a natural gas?

Anurag Jain: Yes, so we are -- so at one place we have pipe natural gas that is in Dharuhera, while in Mundra now we have started using propane and sometimes use LDO also, but majorly we have shifted to propane.

Akshat Goenka: I would say that we have the ability to use all kinds of feed stock at both the plants. And then it's basically a decision for sustainability, commercial and all of those things.

Samarth Singh: So, would that be a potential driver in that gas pipes or somehow -- would that be a potential



driver of margins or difference?

Anurag Jain: So, this is something which has happened last year itself that is the mix. The potential driver of margins is coming from the projects we have taken to improve our efficiencies.

Samarth Singh: Do you think that the gas prices further come down, so will that...

Page | 9

Anurag Jain: So, the gas prices have further come down, yes. Yes, and it will help. And when we said that we will be hopeful of sustaining the margins this year. That is a component that we have considered.

Moderator: The next question is from the line of Jignesh Shah from Shah Investments.

Jignesh Shah: My first question is how is the current demand outflow in the domestic market and the exports market, especially in Europe.

Anurag Jain: So as far as the domestic market is concerned, we expect the demand to grow in the domestic market in the range of about 8% to 10% for overall insoluble sulphur which is based on the projected demand of the tyre industry as well as the increase in insoluble sulphur consumption.

As far as Europe is concerned, the demand continues to be muted on account of high prices of fuel, on account of the geopolitical situation of the Ukraine-Russian war and overall depressive sentiment of the economy. So, the demand continues to be muted in Europe.

Jignesh Shah: And how do you see the demand-supply dynamics for insoluble sulphur in the next 2 to 3 years?

Anurag Jain: So, if everything remains stable we are still hopeful that the demand for insoluble sulphur should grow in the range of 3% plus minus globally per annum.

Jignesh Shah: Understood. And also, do we see our market share increasing going ahead?

Anurag Jain: Well, that is -- that is our endeavour to increase the global market share. And we are working towards it.

Moderator: The next question is from the line of Aditi Sawant from ADM Advisors.

Aditi Sawant: My first question is that -- what are the steps you have taken to improve our efficiency and second one is, are we planning capex for insoluble sulphur in the future?

Anurag Jain: So as far as the steps for improving the efficiency is concerned, we do take steps and wherever we find the opportunities through our R&D and technical team which are continuous process. It will be difficult to point out once -- no this is a continuous process. As far as the expansion -- the next step of expansion is concerned, we are looking for confirmation from the market for increased volumes. Once we are certain of the utilization of the volumes that we have currently, we will immediately go for expansion for which everything is ready. Civil work is mostly done.

Aditi Sawant: Okay, so have we identified any products for that?



- Anurag Jain:** No, the expansion currently what we are talking about is in insoluble sulphur only, because we have expanded on a 2-phase expansion basis where majority of the utilities and the civil expenditure happens in the first phase in order to save overall costs. And the second phase will be at 50% cost of the first phase. So that is our first priority.
- Moderator:** The next question is from the line of Riya Soni from Soni Investments.
- Riya Soni:** I have 2 questions. Firstly, what are penetrations level in U.S. and China currently? And where do we see it in the next 2 years? Also have you added new tyre customers?
- Anurag Jain:** So, in China, our penetration level is maximum. As far as America is concerned, we have started penetrating there. And by end of the year, we are hopeful of adding a lot more quantities, that's our focus -- one of the focus. And yes, we are adding -- and in the process of adding more customer and customer plants, that is where we see our growth coming from.
- Riya Soni:** Secondly, could you comment on the volumes and utilization for the quarter and the full year?
- Anurag Jain:** Can you ask the question again please?
- Riya Soni:** Could you comment on the volumes and utilization for quarter and the full year?
- Anurag Jain:** So, we could not give those figures as I commented earlier, we do not give the volume figures because of the competitive environment. But I have already commented that the capacity utilization or the volume but with the rising of the capacity utilization because we had an extension last year. The volumes for the year were on the same level as they were for the last year. For the quarter, they were a bit lower than the last year. But for the year they were same as the last year.
- Moderator:** The next question is from the line of Harsh Shah from Top Hill Investments.
- Harsh Shah:** Sir, I have 2 questions for you. If you can give some commentary on how business is going on in Europe since it's a 50% plus contributor to overall business?
- Anurag Jain:** It's not 50% contributor to our overall business. I think that figure is wrong. Though, it was a very significant and continues to be a very significant part of our export market. I have already touched upon the subject of consumption in Europe, which continues to be subdued, effected by a recession like atmosphere there, the Russian-Ukraine war and also higher prices of fuel, which has now started coming down, but still remains higher than usual.
- Harsh Shah:** Okay, sir. Also, one more question. For quarter 4, our EBITDA margins have been 17.6 percentage around. So, can you throw some light on the same?
- Anurag Jain:** Well in Q4, in fact, our contributions were much better than the Q4 of last year. And that is why even when I say that we have -- we have sold less quantity our profit has been better than Q4 last year. The EBITDA margins are a product of your probability as well as of your top line. The reason that is a bit lower was because of higher selling price on account of higher raw material



costs. Our overall profitability was better on account of better margins mainly from exports, because of lower freight cost.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments.

Akshat Goenka: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information kindly reach out to us or Strategic Growth Advisors Our IR advisors. Thank you once again.

Moderator: Thank you. On behalf of Oriental Carbon & Chemicals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.