PCBL Chemical

Operator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY27 earnings conference call of PCBL Chemical Ltd., hosted by ICICI Securities Limited. As a reminder, all participant lines will be in 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 the operator by pressing star, then zero, on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you, and over to you, sir.

Sanjesh Jain – ICICI Securities: Thank you, Muskan. Good afternoon, everyone. Thank you for joining the PCBL Chemical Ltd. Q2 FY27 results conference call. We have PCBL Chemical management on the call, represented by Mr. Nilesh Koul, Managing Director; Mr. Mohit Narang, CEO, Aquapharm Chemical; Mr. Raj Gupta, CFO; and Mr. Pankaj Kedia, Executive Director, Investor Relations. I would like to invite Mr. Nilesh to initiate the call with his opening remarks, after which we will have a Q&A session. Over to you, sir.

Nilesh Koul – Managing Director: Thank you so much, Sanjesh. Good afternoon, everyone, and thank you for joining the PCBL Chemical Ltd. Q2 FY27 earnings call. Before I get started, I would like to extend my warmest wishes to all of you for the festive season ahead.

Coming back to business now. The September quarter was marked by volatility in the carbon black market, with crude price movements influencing customer purchasing patterns. Geopolitical developments, particularly the conflict in West Asia and between Russia and Ukraine, continue to disrupt trade routes, elevate freight costs, and influence customer destocking decisions.

Amid these market conditions, we remain focused on factors within our control: pricing discipline, cost management, and reliable customer servicing.

Despite the volume headwind, we delivered revenue growth of 12% to {? 2,130 crores ?}, and profit after tax grew 20% to {? 123 crores ?}, a testament to the improved pricing discipline and cost optimization efforts.

[pause]

Sorry, just give me a second.

[pause]

Amid these market conditions, we remained focused on factors within our control. Pricing discipline was maintained, along with cost management and reliable customer service.

Geopolitical developments, particularly the conflict in West Asia and between Russia and Ukraine, continue to influence energy markets and trade flows. In fact, in some cases, supply chains are being rerouted. With crude movement from the Middle East being disrupted, there is a change in trade patterns for crude coming from the US to Europe.

For our business, the impact has been felt through changes in feedstock costs, shipping expenses, and customer destocking decisions.

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Some customers continue to maintain lean inventories and adopt a wait-and-watch approach amid expectations of softening prices, adding to the pressure on quarterly volumes.

Freight and logistics costs have risen very sharply, with shortages in vessel availability and longer transit times. Longer shipping routes are increasing ton-miles, while higher freight rates and war risk premiums are adding to the landed cost of feedstock.

We are balancing customer commitments with realizations and remain selective where logistics costs make the economics less attractive.

Let me briefly touch upon the quarterly performance before going into other details. I mentioned this earlier, but let me repeat it again. Consolidated revenue grew 14% year-on-year, EBITDA grew 12%, and profit after tax grew 20% during the quarter.

Just quickly going back to the global carbon black industry and feedstock trends.

Coal tar prices have firmed up in China, increasing production costs for carbon black manufacturers. This should, in the medium and long term, support prices in Southeast Asia.

The disruption of Russian refineries continues to impact the availability of CBFS. As we highlighted last quarter, Russian refineries' throughput has fallen to multidecade lows, with a meaningful share of capacity offline.

This shrinking of Russian supplies is impacting both their exports of carbon black and CBFS, and keeping global feedstock availability relatively tight. This should, hopefully, also support higher realizations in the market.

Now, on domestic demand and exports—domestic demand continues to be supported by strong OEM performance, steady replacement demand, and activity across key automotive segments.

However, cautious procurement and inventory management by customers are affecting volumes during the quarter.

With capacity utilization in the domestic carbon black industry inching up, we can reasonably expect some improvement in spot prices and margins going forward.

In the international markets, we are maintaining price discipline, while elevated freight costs are impacting the economics of serving customers.

Our focus is to maintain strategic customer relationships and protect realizations, while pursuing opportunities where commercial returns are appropriate.

We are strengthening our presence in Europe and North America through the Antwerp warehouse and the US entity, improving supply chain flexibility, customer engagement, and local support.

Our power business continues to support the overall operating model. Short-term power tariffs remain elevated, and we continue to benefit from the same.

Now, a quick look at the tire and carbon black outlook.

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The automotive demand outlook is encouraging, especially in India, with improving commercial vehicle trends, while the festive season is providing potential support to vehicle and tire sales.

However, tire manufacturers continue to face elevated raw material costs, not just for carbon black, but for elastomers and rubber as well.

While overall cost inflation in the OEM and replacement markets is adding to cost pressure, price increases by them in the market are not fully passing through, and that continues to put pressure on their margins.

Capacity expansion across the tire industry remains encouraging, with leading manufacturers operating at healthy utilization levels and progressing with their planned capex. This supports our confidence in the underlying demand outlook for carbon black.

On specialty carbon blacks:

During the quarter, specialty carbon black operations were impacted by global uncertainty, elevated oil prices, and higher freight costs, which affected trade flows across key markets.

Despite these external challenges, we continue to make meaningful progress on our strategic growth initiatives across products, applications, and geographies.

In the interim, we are exploring opportunities to reallocate volumes across customers and markets, while remaining well positioned to scale up supplies as conditions normalize.

In parallel, we are deepening customer engagement through technical collaboration and solutions-led offerings, strengthening the supply chain and integrating into customer product development roadmaps, enhancing long-term customer stickiness.

Expanding the proposition of the business covered under long-term supply and offtake arrangements with strategic customers remains a key priority, improving revenue visibility, reducing demand volatility, and supporting a more predictable earnings profile.

These initiatives, combined with our expanding market reach, position us well to drive profitable growth and steadily increase the contribution of specialty carbon blacks to our overall portfolio.

A little bit of a deep dive into our advanced battery materials business:

Our battery materials strategy is progressing from advanced materials to integrated, high-value solutions for the lithium-ion battery industry.

Through NanoConex, our 51% joint venture with Australian technology partner Kinaltek, we are developing high-purity nano-silicon using a proprietary chemical reduction process, with the potential for lower-cost, lower-carbon manufacturing.

Silicon, of course, offers 10 times the energy storage capacity of graphite—3,579 milliamperes per gram versus 372 for graphite—creating opportunities for high energy density and faster charging.

However, managing silicon's volume expansion of up to 300% remains a critical challenge.

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That is where our innovation program is focused on overcoming these limitations.

Our pilot project in Palej has started creating samples, marking an important milestone in the scale-up of the technology.

Materials produced at the facility are currently undergoing internal qualification, to be followed by customer evaluation and validation.

This represents a sig— [cut off]

Nilesh Koul – Managing Director: ...significant transition from laboratory-scale technology development to pilot-scale manufacturing, strengthening the foundation for future market adoption.

There is another change from last time. We are now moving beyond nano-silicon additives to silicon-carbon composite solutions as well, combining PCBL's expertise in engineered carbons with Nanovace's silicon technology. Our objective is to improve conductivity, manage expansion, enhance cycle life, and deliver commercially scalable anode materials. Development is progressing across Palej, Belgium, and Australia, leveraging complementary capabilities in electrochemistry and carbon engineering.

For reference, the global silicon-carbon anode market, estimated at approximately $1.2 billion in 2025, is projected to grow at over 25% annually through 2035. Together with our conductive carbon black and acetylene black programs, this positions PCBL to capture a large share of the battery materials value addition. Our ambition is to move from supplying individual ingredients to engineering integrated battery solutions, creating a differentiated, technology-led platform with significant long-term potential.

The superconductive black facility has been commissioned, while acetylene black is progressing toward its planned timeline, and the project has received approvals under the relevant {? EC/MS ?} framework.

Talking about the financials and operating highlights, let me now briefly touch on some of those parameters. Consolidated carbon black sales volume was 134,180 tonnes. Revenue from operations stood at 2,474 crores. EBITDA was 310 crores, and profit after tax was 74 crores. Domestic carbon black volume was 92,843 tonnes, while export volume was 41,337 tonnes. Within the carbon black portfolio, tire grades contributed 77,914 tonnes, performance chemicals contributed 39,698 tonnes, and specialty grades contributed 16,568 tonnes. Power generation was 186 million units, of which 108 million units were sold externally at Rs.5.34 per unit.

We reiterate our guidance of double-digit growth in average EBITDA per tonne over FY26 levels. We remain committed to that guidance.

Through the quarter, our focus was to manage the impact of market volatility while maintaining operational efficiency and customer commitments.

Now, a little bit about Aquapharm, and I am going to hand over to Rohit. Before I do that, I would like to highlight a few priorities of Aquapharm. Green chelates continue to perform well, while PBTC

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is moving into its next phase of ramp-up. We are also focused on improving capacity utilization and accelerating customer validation for the newer products. These measures support our FY27 target of double-digit revenue growth.

I now invite Rohit to take us through Aquapharm's performance for the quarter and its priorities going forward. Rohit, over to you.

Rohit: Thank you, Nilesh, and good afternoon, everyone.

At Aquapharm, our focus is on improving utilization of existing assets, strengthening our product mix, and converting ongoing initiatives into growth. We are working toward double-digit revenue growth for FY27, supported by execution, customer deployment, and new products.

Let me first take you through the second-quarter numbers. Aquapharm reported sales volume of 24,253 metric tonnes, revenue of Rs.433 crores, and EBITDA of Rs.42 crores in Q2 FY27.

During the quarter, oil care sales volume increased by 7% year-over-year. Both the water solution and oil and gas segments reported a 20% year-over-year decline, while remaining steady sequentially. Application-specific solutions posted strong double-digit growth of 15%.

Green chelates continue to do well and remain an important area of growth. We are progressing customer engagement and commercial opportunities in this portfolio, gaining customer qualifications, especially in the US and Europe. At the same time, we are experiencing very strong demand for our PBTC product line and working to increase its contribution to the business.

On the raw material front, we have expanded our critical raw material inventory coverage to protect our supply chain against ongoing market volatility. While proactively managing input risk is vital to prevent operational disruptions, we have preserved our margin profile through rigorous price realization and commercial discipline. Moving forward, we will maintain a disciplined balance between robust supply security and optimal working capital efficiency.

Concurrently, we are conducting a comprehensive pricing review across our portfolio and regional markets, executing rationalization measures where necessary. Our objective is to ensure swift pass-through of input cost dynamics, protect product margins, and enhance overall revenue quality.

Driving higher plant capacity utilization remains a core operational priority, enabling us to unlock greater operating leverage and efficiency as volume momentum builds.

Our strategic focus on innovation is beginning to deliver tangible results, highlighted by our first commercial order for synthetic thickeners. Concurrently, we are actively advancing customer qualifications for our biocides and corrosion inhibitors with key US oil and gas operators. We are systematically expanding our advanced product pipeline and collaborating closely with customers through trials and technical approvals to accelerate market adoption and drive profitable growth across our application-led portfolio.

In Saudi Arabia and the wider Gulf, we continue to position ourselves for a shift from thermal desalination to seawater reverse osmosis technology, commonly known as SWRO technology. We

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are accelerating our account approvals and building out our RO-focused portfolio, consistent with the progress we reported last quarter.

Our action focus and priorities are scaling green chelates, ramping up PBTC, improving utilization, and strengthening raw material security.

With that, I will hand back to Nilesh for the outlook and closing remarks. Over to you, Nilesh.

Nilesh Koul – Managing Director: Thank you, Rohit. Looking ahead, we remain constructive on the medium-term opportunity. The structural tailwinds, India's expanding markets, and the contraction in refining and carbon black exports from Russia continue to play directly to PCBL's strengths: scale, reliability, a global supply chain, and an expanding specialty portfolio.

In the near term, we expect buying patterns to improve gradually as customers gain greater clarity on prices. Continued disruption to Russian refining operations is expected to keep global CBFS availability relatively tight, supporting a more balanced industry environment and healthier spreads. We remain constructive on the strong second half while recognizing that the timing of recovery will depend on market conditions.

To sum up, Q2 was shaped by geopolitical disruptions and cautious customer buying. However, our focus on pricing discipline and cost optimization delivered improved financial performance despite volume headwinds. We optimized our cost, product, and geographical mix to manage the margin portfolio effectively. On the cost front, we continue to drive efficiencies across our operations through targeted cost-saving measures and yield improvement, with a focus on improving overall cost competitiveness.

We continue to focus on a disciplined core carbon black business, diversifying our specialty portfolio, and progressing our advanced battery materials platform.

Thank you for your continued interest and support. We will now be very happy to take any questions from you.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha – Sunidhi Securities: Thank you for taking my question, sir, and congratulations on a good set of numbers. As we indicated in the Q1 call, a lot of inventory was cleared in Q1, and in Q2 there would be some inventory buildup. I just wanted to understand how the inventory situation has been for us in this quarter. Considering the rising prices in China, how much has been passed on in this quarter, and how much of the impact would we see in the coming quarter?

Management: [pause] Last quarter, when we were doing the earnings call, Rohit, crude had already come down to around $70-$71. Therefore, we expected some kind of inventory buildup at the

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customer end. But then crude did not stay there. It moved back to $100 and beyond. As we speak, it is at $110. Consequently, we did not see inventory buildup. Rather, there was inventory reduction, because no one expected crude to remain at the current level. That has also impacted our volumes.

Regarding the impact of inventory, if crude had stayed where it was, at $70 or maybe $75, possibly part of the inventory gains that we made in the first quarter, or maybe a good part of it, would have had to be given back in the second quarter. But that also did not happen because crude remained elevated. Therefore, only about 10-15 crores of that, in the beginning of the quarter, was something that we could pass through to customers. Subsequently, because of higher crude, prices remained elevated, which is also reflected in the realization for the quarter, which is higher than the last quarter.

Rohit Sinha – Sunidhi Securities: Understood. In terms of the current prices, I think the first month of Q3 will also have better realization compared with Q2. If crude remains at these levels, will we see better realization in Q3 as well? Is that correct?

Management: Rohit, realization in our kind of business does not matter much. It is more about how much margin we are making per tonne, because realization will also depend on the level of crude, as you correctly said. The idea is not to focus on realization, but to ensure that we have proper pass-through and are also able to utilize the opportunities available in the spot market.

Nilesh Koul – Managing Director: That said, we have already announced the price increase in the spot market as well, which should come through in November, and in December we expect that price increase to go further up. It is gradually being moved up as the higher-cost inventory comes in.

Rohit Sinha – Sunidhi Securities: Okay, great. Secondly, on the power business, in this quarter we had slightly lower revenue and lower profit as well. Given the rising power demand scenario, I wanted to understand why revenue was down in this segment. Is it because we have been using the power captively, or is there any other reason?

Management: The PCBL business is self-sufficient in power. However, at Aquapharm we have to purchase power, and we had to incur about 10 crores of higher cost during the quarter. To that extent, there was an impact on the performance. But our realization has also gone up. At PCBL, about 40% of the power that we generate is used captively, and 60% is available for sale. Therefore, higher realization actually pushes up the bottom line for us.

Rohit Sinha – Sunidhi Securities: Okay.

Management: The generation of power is actually dependent on the carbon black production level. Last quarter, we mentioned that we were exercising pricing discipline. In some geographies, especially Southeast Asia, where we were not making decent margins, we cut down on volume. Consequently, the production level also came down. With that, overall generation was slightly lower compared with last year. As we scale up production, which we are doing this quarter, we are likely to see a jump in power production as well.

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Rohit Sinha – Sunidhi Securities: Great. One last question on Aquapharm. How are we looking at the second half? I think Rohit has joined, and we are looking to scale up the business. With these geopolitical issues, we are still—

Rohit Sinha – Sunidhi Securities: I think, putting it on the short side, how would the full-year number look for Aquapharm in terms of volume and profitability?

Management: Rohit, would you please take this question?

Rohit: We are looking at continuing to strengthen our foundation across the portfolio. Our ACL India business and our Saudi business continue to be strong, and we are expecting double-digit growth in the second half. With the geopolitical situation in the US, there is a lot of investment that oil and gas companies are holding back because of the uncertainty, and that is the part that we are still navigating in terms of bringing that around and resuming growth. Overall, we will stay within the commitment of double-digit growth for the second half as well.

Rohit Sinha – Sunidhi Securities: Okay. That is it from my side, sir. Thank you, and best of luck.

Operator: Thank you. The next question is from the line of Shailesh Raja from 360 ONE Capital Market. Please go ahead.

Shailesh Raja – 360 ONE Capital Market: Hello, sir. Thank you for the opportunity. We have a cost control program to save 200 to 250 crores. Both opex and employee costs fell by 53 crores quarter-on-quarter, but how much of that is volume-linked and how much is structural reduction in cost? Can you please quantify that, sir?

Management: It is not much at this stage. Most of the drop in cost that you are seeing is on account of volume, but maybe about 10-15 crores has also come from Project Alchemy. We are getting very good results out of this, and Nilesh, would you want to add something?

Nilesh Koul – Managing Director: The Alchemy project is moving well. As you would expect, initiatives have been identified. We remain positive about 200 crores being delivered over the coming quarters. The initiatives are being proven. The next step, of course, is horizontal deployment. We are in that phase right now where initiatives are proven, we are standardizing them and spreading them across the business, which will be done over the next few months or so. We should start seeing some acceleration in the bottom-line realization of these cost projects that we are working on.

Shailesh Raja – 360 ONE Capital Market: From Q4, sir? Can we see significant improvement from Q4 of this year?

Nilesh Koul – Managing Director: You will see acceleration from where we are today, and the realization will subsequently happen in the following quarters. A lot of this essentially consists of yield improvement initiatives and throughput improvement initiatives. When our capacity utilization goes up further, the benefit will be even higher because throughput improvement is what we are getting through some of these initiatives. The initiatives that are yield-linked result in a direct flow-back to us. There are also other procurement-linked cost initiatives, some of which we expect to start showing results this quarter and in the next quarter as well.

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Shailesh Raja – 360 ONE Capital Market: Understood. We were expecting better export volume from Q2, as we mentioned in the last call, but volume was down 18% quarter-on-quarter. If crude remains high at $90-$100, how do you see export volume offtake in the second half and for the full year? Also, over the last 2 years, we have maintained about 2.3 lakh tonnes of export volume. How do you see it for the full year, sir?

Nilesh Koul – Managing Director: The export volume, as Raj was mentioning, was partly pulled back where the contribution was not positive. To a large extent, it was a mix of crude and raw material prices and freight costs because, in some cases, we do not have freight on a pass-through basis. Now that the market has stabilized, and we are also seeing coal tar-based export prices moving up, we expect to return to growth in international markets as well.

In fact, based on that, we have invested in infrastructure facilities in the US and Europe, which should help us unlock some additional volume. For example, in the US, roughly 40% to 50% of volume is sold through railcars. We did not have railcars until now. As we are setting up that infrastructure, we expect that volume to go up as well.

The third thing we expect to happen is that the uncertainty around tariffs, which was influencing some customer decisions, will reduce. There is a little more stability on that front, and once we have stock in the US for servicing those customers, there will be more comfort, and they will increase volume. I expect to see international volume growing as we move forward.

Shailesh Raja – 360 ONE Capital Market: I just want to understand: including the Andhra capacity, we can effectively produce around 8 lakh tonnes. That is an incremental 2 lakh tonnes from current volumes. How much of that could come from exports?

Nilesh Koul – Managing Director: We should see significant growth in exports over the next few years. We have a fairly small market share today with some of the largest customers globally, and we are entering into conversations with them on long-term tie-ups, which should easily see our volumes multiply as we progress over the next year. A significant part should go into the export market, which is part of our strategy to keep lower pressure on the Indian market so that prices are not impacted because of the overcapacity.

Shailesh Raja – 360 ONE Capital Market: Also, specific to specialty carbon black, we can effectively produce 1 lakh tonnes. How much are we targeting this year? Also, for next year, with more grade approvals and customer wins, what volumes are we targeting?

Nilesh Koul – Managing Director: On specialty, the capacity that we have is around 75, so we are in a position to market that. We are tying up more and more resources for raw material, which is feedstock that is unique to specialty chemicals. That is the barrier. Otherwise, we have enhanced capacity now. Mundra Line 6 is already commercialized, but we can dial up volumes as gas and raw material become more available. We should see significant growth in both of those.

Shailesh Raja – 360 ONE Capital Market: One last question. We have a capex plan of 300 crores in FY27. What about the coal distillation capex, sir? Has it been finalized?

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Nilesh Koul – Managing Director: We are in the final stage of approving that. As I said last time, we were looking at both the supplier contracts and the technology we wanted to use. That is now almost finalized. We should be announcing that shortly.

Shailesh Raja – 360 ONE Capital Market: Okay, sir. Thank you, sir. All the best.

Operator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan – SMIFS Institutional Equities: Thank you, sir, for the opportunity. I have a couple of questions. First, on the Aquapharm side, you mentioned that we are anticipating double-digit growth for FY27. When I recalibrate the numbers over the last 2 years, H2 is generally lower than H1 in terms of volumes for Aquapharm. We have been lower by 8% to 10% consecutively over the last 2 years. In the coming H2, what higher volumes are we anticipating from either green chelates or the phosphonate segment, which are witnessing an uptake? What is leading to this double-digit growth, excluding the pricing benefit that we are anticipating?

Secondly, regarding the HEDP and ATMP anti-dumping duty that has been provisionally imposed by the DGTR, if you could give a ballpark number, how much would that additionally contribute to EBITDA for Aquapharm, and what is the current contribution of these two products to the top line?

Rohit: Thank you. I will take it one by one. You are absolutely right. In the second half, especially Q3, we do see cyclicality. In the US oil and gas business, we see a dip because many customers do not want to hold inventory and pay taxes on it, especially in the US. We also renew a lot of contractual business in Europe. The business typically picks up in Q4 of the financial year, and we see a dip in Q3. All those impacts have, on a sequential basis, taken Q3 volumes down in the past, followed by some recovery in Q4. That is why H2 was always slower than H1.

This time around, what is different is the commercialization of new products, especially PBTC and GLDA. We are seeing strong demand. Those products were not present in H2 of last year, and we are seeing some traction there. That is the key driver for the double-digit growth on the volume side. Let me pause there. Did that answer your first question?

Aditya Khetan – SMIFS Institutional Equities: I was also asking whether this double-digit growth would be largely contributed by pricing growth, as you said volumes would likely dip in Q3 and recover in Q4. Pricing would largely be the key driver, right? That is what I—

Rohit: Volume is also a factor. Pricing is definitely something for which we are driving discipline, and it will be a key driver. But as I said, the new products that we are selling, which we were not selling in H2 of last year—PBTC, GLDA, and green chelates—are driving volume growth as well.

Aditya Khetan – SMIFS Institutional Equities: Understood.

Rohit: On the second question, anti-dumping in India is provisional right now, and we are working on getting it over the line so that it is finalized. We have not incorporated any impact of anti-dumping yet in our forecast, and I do not have specific numbers on how it is going to help. We do anticipate that it will definitely have an impact on the margin side and on some of the volume side, but given that it is in process and just happened, we still have to fully analyze the impact.

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Aditya Khetan – SMIFS Institutional Equities: Understood. My second question is on the carbon black side. In your opening remarks, you mentioned that Russian facilities are also facing the impact of the war and are operating at lower levels. Considering that volumes from Russia could also have declined in India, how is the import dynamic looking? Is Indian pricing more beneficial for local tire manufacturers, or are imports still able to lower their prices and supply the market? Also, on the China side, how do Russian and Chinese imports compare with domestic players?

Nilesh Koul – Managing Director: We did have a challenge with Russian prices being lower than our prevailing domestic prices. But over the last couple of months, we have seen a decline in import volumes, specifically because of both the factors that you mentioned. Russian supplies have become challenging, and coal tar prices, which are the predominant feedstock used by Chinese players, have gone up. Therefore, there is not as much importing taking place.

Imports had happened because it also takes a little bit of time. Our customers had booked those volumes when there was uncertainty around availability when the war started and 6 months ago. Some of that started arriving after 3 months, but now we are already starting to see some decline in the volumes being imported into India.

Aditya Khetan – SMIFS Institutional Equities: On the raw material sourcing side, earlier we understood that around 80%–85% of the portion was imported from the Gulf. How has the RM sourcing supply chain changed? To which other countries are we now rerouting to procure CBFS? Also, what would be the supply risk premium that we are paying? If crude prices remain the same and we change sourcing from a Gulf country to another country, such as the US or China, what supply chain premium are we paying in terms of higher freight, higher power cost, or any other higher cost for changing this supply chain route?

Nilesh Koul – Managing Director: As of now, the mix from the US continues to be as it was. What we have done is diversify in the US. Instead of buying everything from one vendor, we are now sourcing material from multiple vendors in the US. We are also trying to find additional sources, which hopefully should come through in the next few months, from Southeast Asia as well. From Korea, Malaysia, and Thailand, we are looking for alternate raw material.

In our case, the quality of the feedstock that we get and the price have to be evaluated in terms of the yield we will get from the same type of product. That mix is what we are trying to optimize, while also, to some extent, de-risking the business from US supplies.

The premium—would you have an estimate for the premium that we pay right now?

Management: Rohit, he is asking whether when [cut off]

Aditya Khetan – SMIFS Institutional Equities: ...there would be a premium if the sourcing were changed from one geography to another?

Management: For de-risking, we are hoping that on a like-for-like basis, meaning in terms of the component in the end product, we should be able to keep the prices flat. A small premium of 1% to 2% might occur on the volume coming from Southeast Asia. But we are in the middle of negotiations there right now.

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Aditya Khetan – SMIFS Institutional Equities: Okay. Just one last question. Regarding the earlier participant, you mentioned the volume guidance. Considering that Q2 has been a lower quarter, and given the current situation with higher oil prices and geopolitical uncertainty still continuing, it is unlikely that things will be resolved by this calendar year. Does the 11% volume growth guidance still stand, or is there a cut to that number?

Management: [off-mic discussion] {? Can I answer that, sir? ?}

Management: There are two things on that. On the financial guidance, we are not changing anything. On volume, we had said around 7% or so volume growth. That is a little challenging right now, both from the point of view of raw material availability and the competitive markets that we want to address this year. However, the EBITDA guidance continues. Volume might be a little lower than what we had initially set out at the beginning of the year.

That said, we will see how the spot markets behave. In Q3 and Q4, we will be looking at exploiting some of those opportunities as well. We are now far more competitive given what is happening with Russia and with carbon black prices in China.

Aditya Khetan – SMIFS Institutional Equities: Understood, sir. Thank you, sir. That is it from my side.

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

Sanjesh Jain – ICICI Securities: Thank you for the opportunity. I have a few questions. First, on the volume decline in this quarter, what explains that? Was it raw material availability, unfavorable economics, or lower demand itself? If I put the volume decline into these three buckets, can you help us understand the magnitude of the impact from each of these three reasons?

Management: This was primarily a margin decision, Sanjesh. In the geographies and with the customers, especially in the spot market, where we were not making meaningful contribution, we decided to let go of those orders. A good part of it came from Southeast Asian countries such as Sri Lanka, Bangladesh, Vietnam, Thailand, and others.

In the domestic market as well, in the spot market, wherever we did not see decent margins, we allowed others to take that share. Last quarter, we discussed this, Sanjesh: we would maintain a degree of pricing discipline at our end and focus on profitable growth. Therefore, you will see that the margin profile this quarter, even if you take out the impact of the reversal of tariffs, is better than what we had guided.

We will continue to do that. We are not chasing volumes. We would rather keep this capacity spare and, if required, slightly postpone some of our capex decisions.

Sanjesh Jain – ICICI Securities: Understood.

Management: One quick additional point: in Q1, we also saw some degree of stocking up by certain tire customers who had built up additional inventory in anticipation of a price increase. They moderated that in this quarter. We expect that volume to come back in Q3.

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Sanjesh Jain – ICICI Securities: In the domestic market particularly, we have been prioritizing value over volume. Which players have been very aggressive in the market? Imports generally are facing challenges, so what is the thought process among the players in terms of competitive intensity? Who is picking up the lower-priced spot volumes?

Management: I would not want to comment on competition or what is happening there. It is just that some people are chasing volume, and I assume some degree of cash. But when we look at benchmarking across the industry, I do not think it is possible to afford low prices for long in this industry.

Sanjesh Jain – ICICI Securities: Understood. Second, on backward integration and coal tar, we said that we had firmed up the plan. Do we have enough avenues to source the raw material competitively so that we can run that plant efficiently?

Management: Yes, we have done that exercise, and the raw material that we need is available to us.

Sanjesh Jain – ICICI Securities: Understood. The other question is on the export dynamic. Now that the tariff situation in the US has stabilized, and in Europe, apart from the challenge of logistics costs being too high because we are a bulky product, do you see any other challenge in capturing the export market? As things settle down, I think that will become a very interesting market to look at.

Management: In the US, we will see a volume increase next year. The one residual challenge is that there is still some concern about tariff volatility. Right now, it is low, but all the large customers contract out volume for the full year. There is also some spot volume available. However, when they make that calculation, they do not want to forego local capacity because if, sometime in the middle of the year, the tariff suddenly goes back up, that is one concern they have expressed to us.

The way we have worked around that is to promise them that we will keep a certain degree of inventory locally in the US to ensure that they do not face unavailability of material because we are unable to supply. That is the only pending issue that we need to resolve. Hopefully, if the trade deal between the US and India goes through, that will provide far more certainty.

While we are currently competitive, they still do not want to shift a significant amount of volume to us compared with what they would be able to do if there were more certainty on tariffs.

Sanjesh Jain – ICICI Securities: From the European market perspective, now that Russia's raw material capacity has also fallen and it has become less competitive, and the Russians were not supplying material in any case, how do you see the European market?

Management: While overall growth in the European market remains somewhat uncertain, we hope that next year it will grow by 1% to 2% or so—1%–1.5%, I would say. We are expanding our infrastructure and expect to continue growing, definitely in specialty and also in rubber products. We are looking forward to growth.

We have been negotiating with customers for next year's volumes. There are positive indications of growth.

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Sanjesh Jain – ICICI Securities: Understood. Regarding the Rs.33 crores that we received as a refund from the US tariff, is that 100% of what we were supposed to receive?

Management: Yes.

Sanjesh Jain – ICICI Securities: Okay. One last question on battery chemicals. When you said we are looking at a silicon compound, are we looking at making an anode including graphite, or is graphite still not on the drawing board for us?

Management: Graphite is not what we are looking at at this stage. At this stage, we are looking at carbon-silicon compounds. We are exploring other materials to enhance the product range, but as of now, what we are trialing internally is a carbon-silicon compound.

Sanjesh Jain – ICICI Securities: Understood. That answers most of my questions, sir. Thank you for answering all of them, and best of luck for the coming quarter. Happy Diwali in advance.

Management: Thank you so much.

Operator: Thank you. The next question is from the line of Harsh Motika from SKP Securities Limited. Please go ahead.

Harsh Motika – SKP Securities Limited: Thank you for the opportunity, sir. My question is with respect to both the European and US markets. Considering that you just mentioned that Russia has faced some issues with its production, and the market has a shortfall of Russian carbon black, while China has gone through a significant price increase over the last quarter, do we expect realizations from both these markets to go up in the remaining part of the year? At the same time, will this also impact our spreads positively?

Management: The answer is yes.

Harsh Motika – SKP Securities Limited: Would you be able to give us a number for the spreads this quarter for carbon black?

Management: We made about Rs.19,500 to Rs.19,800, roughly, out of which about Rs.2,300 was on account of the tariff refund. Net-net, around Rs.17,500 is what we made in per-tonne EBITDA.

Harsh Motika – SKP Securities Limited: Thank you, sir.

Operator: Thank you. As that was the last question for today, on behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Management: Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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