



“Oriental Carbon & Chemicals Limited Q3 FY17 Earnings Conference Call”

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**MANAGEMENT: MR. AKSHAT GOENKA – PROMOTER AND JOINT
MANAGING DIRECTOR, OCCL
MR. ANURAG JAIN – CFO, OCCL**



Moderator:

Ladies and Gentlemen, good day and welcome to the Q3 FY17 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 risk and uncertainties that are difficult to predict. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akshat Goenka – Promoter and Joint Managing Director of OCCL Limited. Thank you and over to you, Mr. Goenka.

Akshat Goenka:

Good morning and a very warm welcome to everyone. Along with me, I have Mr. Anurag Jain – CFO, and SGA, our Investor Relations Advisors. I hope you have received our result and investor presentation by now. For those who have not, you can view them on our website. I am very happy to announce that we commenced the production from our first phase capacity expansion of 5500 metric tons ahead of scheduled on December 20, 2016, as well as within its budget. Work on next phase has also begun and we expect it to be commissioned by Q2 FY19.

Coming to our quarterly results:

Our performance is as expected both in Q3 as well as nine-month basis. Our company was not impacted due to demonetization as exports are more than 70% of our sales. We expect domestic demand also to revive back in the coming months. On exports, our plan of entering unexplored geographies including China and North America is on track and progressing well. Going ahead, we expect it will help us to improve our performance. Our relationship with our existing customers continues to strengthen.

Now, I would like to hand over the line to Mr. Jain to update you on the operational performance of the company for Q3 and the nine months ended.

Anurag Jain:

Thank you Akshat. I will take you all through the financial of the company. Revenue for the Q3 FY17 is Rs. 73 crores compared to Rs. 66 crores in Q3 FY16. Revenue for the nine months is Rs. 225 crores vis-à-vis Rs. 216 crores same period last year. Increase in top line by 11% this quarter is driven by increase in volumes. For Q3 FY17, EBITDA stood at Rs. 21 crores. EBITDA for the nine month was Rs. 68 crores. EBITDA margin for the quarter stood at 29.1% and for the nine months at 30.2%. Profit after Tax for Q3 improved from Rs. 13.7 crores to Rs. 14.9 crores. For the nine months, PAT improved from Rs. 41 crores to Rs. 44.1 crores. PAT margins are at 20.1% for the quarter and at 19.6% for the nine months ended December 31, 2016.

With this, I would like to open the floor for questions and answers.



- Moderator:** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** There was a marginal downturn in the EBITDA margin for us, so could you please quantify what was the reason for that? Is it largely because of shift in more volumes for exports or is it some ramp up cost related to the new plant?
- Anurag Jain:** There is a marginal decrease in EBITDA, which is frankly not very significant and one of the reasons as you rightly pointed out is because there has been some additional cost incurred for marketing the quantities which have now come on line.
- Shashank Kanodia:** Secondly, you have commissioned your plant in mid of December, but you could not charge any increase in depreciation and interest cost for this quarter, why would that be so?
- Akshat Goenka:** Because interest and depreciation would only be for 10 days, rest of it would be capitalized up till that date.
- Shashank Kanodia:** Sir, then what will be your depreciation and interest run rate for Q4 since now in Q4 it would be full running, so what can we expect or largely? it would be 5% of the depreciation rate, so proportionately it will increase?
- Anurag Jain:** Yes, so may be about 4% of the capitalization roughly.
- Shashank Kanodia:** Annual basis roughly around 5 odd crores, because 100 crores would be the capital cost of first phase.
- Anurag Jain:** Yes.
- Akshat Goenka:** Actually, some portion of it has already come in this year because we commissioned the coal-fired boiler on April 1st of last year, so that would already be here so only the balance would actually kick in.
- Anurag Jain:** So depreciation, it should not be more than 4 crores, between 3.5 to 4 crores.
- Akshat Goenka:** Interest should be around 6 crores a year.
- Anurag Jain:** But for Q4, it would be less than 1.5 crores, because the intake will be less.
- Shashank Kanodia:** We have announced commissioning of the second phase in Q2 FY19, so just wanted to understand so have we advanced that date or it was a scheduled initial date at which you planned to commission this facility?
- Akshat Goenka:** The initial scheduled date was actually April 2018, but around six months ago, we announced that we had not started work on it due to further slowdown in the global economy, so in the last



conference call; I said we will get back with an exact date. If you compare it with the original then you can say it is around three months delayed.

Shashank Kanodia: You mentioned in the previous con call that you would like to enter in to some new line of businesses, which is not entirely the benefiting set up and stuff, as asset heavy as the current business, so have something firm up on that front?

Akshat Goenka: I think part of your question is through some misinformation, we have never spoken about manufacturing or non-manufacturing or asset-light or asset-heavy, these are things that we have never said. What we have said is that we do intend to enter into some sort of a diversification post these expansions. The process is ongoing, nothing concrete has come up and rest assured whenever we do take that decision we will keep in mind the returns on capital and return on equity to be at optimum levels. No decision will be taken without those things kept in mind.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, my question is related to the first phase which has come on line, so could you give some indication on how the ramp up has been there till now and by when we can expect to have closer to an optimum run rate or closer to a full run rate in that plant?

Akshat Goenka: Well the prognosis remains the same that I had mentioned in the last con call. Towards the end of this calendar year, we should hit the full run rate for this phase.

Abhisar Jain: On that only, one more related question that from that plant in the new geography of North America, are we supplying to our existing customer who we were servicing in some other geographies or do we also have got a new customer there per se?

Akshat Goenka: North America pretty much has the same tire companies that are already present in other parts of the world, so we are basically supplying to the same people but to the North American plants.

Abhisar Jain: Have we added a new customer there which we say supposedly not had with us before?

Akshat Goenka: No, nothing like that right now, but you have to also understand that there is no as such big local North American player who is only present in North America whether you take Continental, Good Year, Bridgestone, any of these main players are already present all over the world.

Abhisar Jain: Sir, in terms of the domestic demand for Insoluble Sulphur, is that growth continuing to be in the double digits and are we expected to see any change in our mix with the new expansion coming in or will we be still at 70-30 kind of a mix?



- Akshat Goenka:** No, our export mix will go up because all the incremental capacity that is coming in is primarily for export, so domestic will continue in its growth rate, there will be no slowdown in domestic, however, the export growth rate will be higher, so that will lead to a mix, that will be more skewed towards exports than currently.
- Abhisar Jain:** Right and the domestic demand are still growing between 12-15%-odd right?
- Anurag Jain:** What we say is that it is a double digit.
- Akshat Goenka:** We never say 12-15% or any of these numbers, but it is a comfortable growth rate.
- Abhisar Jain:** Sir, just one last thing related to that only, in the domestic market, our market share would be somewhere around 55-60% is it?
- Anurag Jain:** Yeah, it is between 50-60%.
- Abhisar Jain:** I am saying so that domestic share, we intent to maintain at that 50-60% with whatever growth is happening in the domestic market and the rest of the volumes will effectively find their way into export and increase our export share as such?
- Akshat Goenka:** That is correct.
- Moderator:** Thank you. The next question is from the line of Bobby Jayram from Falcon Investments. Please go ahead.
- Bobby Jayram:** What led to your decision to start phase 2, do you have any pre-booking of orders or is it just your analysis of the global environment?
- Akshat Goenka:** It is an analysis of the pipeline, not so much global environment, but it is basically the responses we have been getting on the basis our existing phase and the pipeline that we see going forward over the next two-three years, which has led to our decision.
- Bobby Jayram:** From the same customers,?
- Akshat Goenka:** Some same, some new. In insoluble sulphur, I think we will all have to understand that it depends on how you quantify customers, because the large tire companies remain the same. It is plants that are added, so per se I will not say that if Continental or Goodyear or somebody gives us a new plant. I cannot say it is a new customer, but it is actually a new plant, that is how this business works.
- Bobby Jayram:** The second question is intuitively one would have thought that given the domestic growth rate is more than twice that of the global rate, you would actually be expanding your share in the domestic market and growing faster here, so why is that the exports that are expanding?



- Akshat Goenka:** Because we are getting new geographies, you are absolutely right, if we were stuck to the same plants or the same set of like regions then our growth rate domestically would be higher than globally, but globally there is more of an area to expand to different geographies, different plants, and different customers.
- Bobby Jayram:** Because your existing market share is low globally, is that what you are saying?
- Akshat Goenka:** Yes.
- Moderator:** Thank you. The next question is from the line of Shikhar Mundra who is an individual investor. Please go ahead.
- Shikhar Mundra:** How do you see the global demand going up for insoluble sulphur in the next five years?
- Anurag Jain:** We maintain that the global demand long term view that we get from analyst is that the global demand should be increasing anywhere between 2% - 4% per annum in the next five years.
- Shikhar Mundra:** Now, let us say, Eastman chemicals, now if they decide to do a major expansion, so would not that trouble you, will there be a price war, how will you try fighting Eastman Chemicals for that incremental demand?
- Anurag Jain:** Our policy of sales has never hinged on a price war, and that should not change. You have to understand that Eastman already controls more than 70% of the market, and for it to get above 70% in a global market is very difficult, therefore, price war does not come into play.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal:** My question is more in to the continuation of the previous question, any comments about the global competitive scenario, like any new expansion or anything announced by the other players?
- Akshat Goenka:** I was actually going to just clarify on that last question, one more point that was missed out, if you look at the capacity expansion over the last few years, it is actually in line with global growth. What is happening is just all of us are expanding together in the same year or round about each other, so it seems as if a lot of capacity is coming on stream in one go, but last four-five years, there has been no capacity come on line, so if you average out the capacity increase done by the three main competitors and you extrapolate it along with the growth rate, you will find that the market dynamics has not changed that much. What has happened basically is that the last three-four years you can say demand growth was muted because of the world economy.
- Ayush Mittal:** Yeah, but that also will not change suddenly when the capacities of all the players comes together?



- Akshat Goenka:** Right now, it is a comfortable situation, there is no issue. I mean we understand Eastman expansion is going to come on stream sometime this year, Shikoku's expansion is also expected to come on stream sometime this year, but we personally do not see it changing the dynamics much.
- Ayush Mittal:** Sir, for your upcoming expansion, are you having some tied up contracts where it is an agreement that such assured uptake has to happen, something like committed volumes from your client?
- Akshat Goenka:** No contract, there is no legal contract.
- Anurag Jain:** But visibility is there. We can see where we will sell it, but if you are asking whether there is a contract or not, nothing like that is there.
- Ayush Mittal:** Another key concern has been that Eastman has always talked about new technologies wherein they will be able to reduce their cost of production?
- Anurag Jain:** That is an ongoing thing, we are also already reducing, and they are reducing.
- Akshat Goenka:** I think all those things have already been factored in.
- Ayush Mittal:** Pretty expansion coming up we want to just see if there is any change in the selling price or competitive intensity or something like that?
- Akshat Goenka:** Gradually, over the last two-three years, with raw materials coming down and with the exchange rate being favorable all those things have already happened and the current P&L that you are seeing is at reduced price vis-à-vis what used to be the selling price a couple of years ago. What I am trying to say is that there is not going to be any kind of big bang discount that is suddenly going to happen.
- Ayush Mittal:** Second part is, in earlier con calls, I remember that you have talked about the long process wherein customer visits the plant before taking up the quantities from a new plant or something, any comments on that or anything you would like to share on the new plants?
- Akshat Goenka:** I will only say one line, that our plant is already approved.
- Moderator:** Thank you. The next question is from the line of Sachin Phade who is an individual investor. Please go ahead.
- Sachin Phade:** When I gone through the last con call, you mentioned like there is no difference in terms of a margin when it comes to domestic as well as the export market, so are you in the same thing or is there any difference coming?
- Anurag Jain:** We have maintained that there is no significant difference in margins in export.



- Sachin Phade:** Another question is usage of insoluble sulphur, let us say for example, as per the projection given in your investor PPT what I found is it is going to increase continuously in 19-20, so my question was like the increase in the use of this insoluble sulphur is because of the increase in the radialization or there is increase in the use of insoluble sulphur in tire, for example, 100 kgs, the rate of increase is there, earlier it was, for example, 1.5 and it is increasing to 1.7 kg
- Anurag Jain:** That is because of radialization, so more the radialization happens, insoluble sulphur consumption per kg of rubber increases.
- Moderator:** Thank you. We have the next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Lakshmi Narayanan:** Sir, in terms of your export market, do you actually logically split it into three or four key markets like China or US and so on, or do you actually look at logically split it by the customer and say that look where the customer goes that is where I need to put a plant, that is my first question.
- Anurag Jain:** Answer to your first question is we look at both. We have to look at both; we have to look at different geographies as well as different customers.
- Lakshmi Narayanan:** Then in case of if I look at Bridgestone, Michelin, Good Year, Cooper, Continental broadly, these guys have multiple plants across, so when you say the customer has approved, is it a plant specific approval or is it approval at an overall procurement level, how the decisions are taken?
- Anurag Jain:** In most of the cases, the approval is overall for a company as far as quality is concerned.
- Lakshmi Narayanan:** You also sometime mentioned that you are looking at expanding or providing material to China am I right or I got my facts wrong?
- Anurag Jain:** Providing material to China is a part of the overall strategy for the expansion phase 1 and phase 2.
- Lakshmi Narayanan:** In China, the largest tire company I think is Cheng Shin rubber right?
- Anurag Jain:** Yes.
- Lakshmi Narayanan:** Do we actually supply to them as well?
- Anurag Jain:** We can take names of the big tire companies because they are global, but I would not like to go to specific companies in China.
- Lakshmi Narayanan:** Okay, because I understand they are among the large?



- Anurag Jain:** We do supply to large tire companies in China.
- Lakshmi Narayanan:** When you actually expand, there is an organic growth that is coming in and there you would be placing a competition or the competition is not getting the incremental business, now which they are things which is giving us an additional expansion opportunity, is it incremental demand not going to the competition or we are removing competition from existing plants?
- Anurag Jain:** You do not look at it on plant wise, if your question is are we snatching quantities away from competition, I do not think that is the case.
- Lakshmi Narayanan:** Okay, we see that in the incremental capacity of an incremental plant or line being done, there we get invited as a second vendor, is that a fair assumption then?
- Anurag Jain:** Let us not go in to that detail because normally, they are some plants which will only have one supplier, so if we get one plant, somebody gets the other plant. When you look at the global market, do not look at it plant wise, between who is having how much, it has to be looked at an overall scenario.
- Lakshmi Narayanan:** Are you saying that in a plant usually there is only one insoluble sulphur company, is that how they look at it?
- Akshat Goenka:** It depends; different customers look at it differently. It is based on their choice. We cannot generalize.
- Lakshmi Narayanan:** There are certain instances where you see that in the overall formulation itself you actually kind of lock up with the entire chemical providers, and then during the course of your plant you do not normally change because the formulation change would require lot of approval and quality, etc.?
- Anurag Jain:** That is true, for insoluble sulphur that generally once the tire company approves insoluble sulphur, it is a long process.
- Anurag Jain:** I know what you are saying, different companies have different strategies or ways on that, some companies who will follow one and there are some companies who are also not particular about it.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Sir, on the phase 2 CAPEX which we are discussing about, what would be the amount that we would have to spend? and secondly, since we have delayed it to some extent the amount of debt which we had earlier said we would be using for the CAPEX, so how do you see? Does that mean that large part of phase 2 can be met through our own internal accruals with cash flows from phase 1 and existing products?



- Anurag Jain:** The cost of the two phases do not change because of the delay, and therefore, currently our financing pattern remains the same.
- Nikhil Upadhyay:** What is the quantum for phase 2?
- Anurag Jain:** About 160 crores was the total overlay for the two phases and what we had said was that one-third will be financed by internal accruals and two-third by loans.
- Nikhil Upadhyay:** Secondly, like as you mentioned in the beginning of the call that we are looking at diversification in terms of different segments or categories, not going specific into any segment or as such but if you can share what would be looking at optimum return matrices and optimum margin profile,? Would it be in similar chemical space where you would be looking at or would it be in spaces like the previous acquisition which we did in terms of the valves and pneumatic division, so if you can just share broadly what is the thought process the management is working towards acquisition and the capital allocation?
- Akshat Goenka:** Well, it is very premature to answer this, but let me answer your question in a different way. I do not think any other acquisition is going to be along the lines of our previous acquisition. We will do better due diligence, we will have more robust criteria applied. We have learnt our lessons from the previous acquisition.
- Nikhil Upadhyay:** If you can just share how do you see the road map for our acquisition, so although we have closed down our valves business and how do you see it over the next three years, how do you see the scale up there or the improvement in profitability so where is the most of the energy be spent towards?
- Akshat Goenka:** As I have consistently maintained over this one year regarding our subsidiary, we see it being profitable now, so what happened is that this year a lot of the fixed costs of the shut business burdened it and we were not so happy with how they were managing it as well, in case any of you have observed, recently we even changed the managing director of that company and we have got in a fresh team in place. Next year, I am definitely very hopeful that the company is going to be profitable. The first focus as far as that company is concerned is to make it profitable, that is the first and foremost focus.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Sir, just a follow up, for that CAPEX which is now pending to be done for phase 2, what would be that amount pending which will be spent in FY18?
- Anurag Jain:** It will be around 60 crores.



- Abhisar Jain:** Just comment from your side on the realization, so have the input costs already started picking up slightly or are you seeing some realization uptake or is it remaining the same that we have seen in most of this year.
- Anurag Jain:** The realization is remaining stable and so is the raw material cost. There has been a slight uptake in one of the raw material where the other raw material has gone up and started coming down, for example, sulphur went up, was going up till January and February, started coming down again. Overall, there has not been a very significant increase in raw material.
- Abhisar Jain:** But Sir, any which from our profitability point of view we focus on the absolute EBITDA per ton that we can make, so as such then the realization will not matter much per se even if it were to go up significantly?
- Anurag Jain:** What we are saying is that the correction in the realization was in tune of the long-term correction in the raw materials, and it has not affected our EBITDA.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Just continuing the question, can you give us some more sense on the pricing part for domestic and exports, more sequentially on Y-o-Y basis?
- Anurag Jain:** What do you mean by?
- Shashank Kanodia:** Our understanding goes that domestically it is around Rs. 135 to Rs. 140 a kg which is flat quarter-on-quarter basis, but do not tend to Rs. 15 per kg on YOY basis, is the understanding correct?
- Anurag Jain:** No, we do not comment on per ton numbers.
- Shashank Kanodia:** Secondly, on your guidance on tax rate, we maintain a MAT accounting, though this quarter the tax was pretty low at 13% odd so for a full-year basis we will do maintain 20% trajectory or it can be lower on that?
- Akshat Goenka:** I think there is some confusion here. We have always maintained that the cash payout is on the basis of MAT, but the P&L is charged at basis the actual rate and the actual rate is based on where there are more sales, better profitability, they are based on SEZ, domestic and all that. From a cash outflow, you should all assume MAT for the next few years.
- Moderator:** Thank you. We have the next question from the line of Ashish Parikh who is an individual investor. Please go ahead.



- Ashish Parikh:** Sir, my first question was with regard to the revenue growth we have seen this quarter and you said that it is primarily due to volume, so would you be willing to share how much volume growth have we done?
- Anurag Jain:** No. I am so sorry, but we cannot do that.
- Ashish Parikh:** With regard to crude prices, they have increased this quarter have we been able to pass it to the customers?
- Anurag Jain:** What has happened, when I was answering earlier question, there has not been any significant movement in raw materials, so one raw material went up, the other raw material has gone up and has started coming down again. Even when it was coming down, the pass on is not immediate in our business, because raw material has a percentage of the total cost is not very high anyway. It would happen if there is a long-term sustainable increase or decrease; obviously, there would be some kind of a past through.
- Ashish Parikh:** Also going through the results, we have seen that the finance cost has reduced a lot this quarter, so have you repaid some of the debt?
- Anurag Jain:** We are repaying the debt as and when they come due, therefore, lot of debt has been repaid and the rate of interest has also come down a little bit.
- Akshat Goenka:** At this point, I think it is important to clarify one point, in the beginning there was a question as to how much would be the incremental interest due to the new plant and we said it will be to the tune of around 6 crores per annum. At that stage, we never factored in the reduction that would come due to repayment of existing debt, so the net increase will not be 6 crores, that will be less than 6 crores.
- Ashish Parikh:** The last question was with regard to the other expenses, we have seen that the increase were around 22% this quarter, any specific reasons for that?
- Anurag Jain:** Two-three reasons, one is that there has been increase in the marketing effort before the starting of the new plant, so over the year, international traveling and new recruitments, so all those has increased the expenditure by about Rs. 1.5 crore in the nine month and because we were marketing, going to meet people, getting approvals, and then there is about a Rs. 1 crore increase in the logistics cost as well, freight, packing, clearance and all those kind of things.
- Moderator:** Thank you. The next question is from the line of Bobby Jayram from Falcon Investments. Please go ahead.
- Bobby Jayram:** Are you dependent on Eastman for any price increase, should a 2008 style crude price increase unfold?



- Anurag Jain:** 2008 was a one-off year, so that does not mean that we are dependent on any for price increase or decrease on Eastman, but having said that, since they control 70% market obviously, they do have more pricing muscle than we do.
- Bobby Jayram:** Right, for practical purposes let us say oil shoots up to the \$80 level, would you be able to have a price increase in your contract, unilaterally?
- Anurag Jain:** There are two kind of contracts, there are kind of contracts which factor in that price increase and there is that kind of contract where that is not factored in, but obviously when it comes for revision on a quarterly or a six-monthly basis, and if it shoots up significantly obviously we will go and ask for the increase.
- Moderator:** Thank you. That was the last question. As there are no further questions, we would like to hand the conference back over to the management for any closing comments.
- Akshat Goenka:** I would like to thank everybody for joining on this call. I hope we have been able to address all your queries. For any further information, kindly get in touch with any of us or with our investor relations advisors, SGA. Thank you once again and see you next quarter.
- Moderator:** Thank you. On behalf of Oriental Carbon and Chemical Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.