# "Oriental Carbon & Chemicals Limited Q3 FY23 Earnings Conference Call"

## February 10, 2023

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**MANAGEMENT:** **MR. AKSHAT GOENKA – PROMOTER AND JOINT MANAGING DIRECTOR, ORIENTAL CARBON & CHEMICALS LIMITED**
**MR. ANURAG JAIN – CFO, ORIENTAL CARBON & CHEMICALS LIMITED**

**Moderator:** Ladies and Gentlemen, Good day and welcome to the Q3 FY23 Earnings Conference call of Oriental Carbon & Chemicals Limited.

This conference call may contain forward-looking statements about the Company which are based on the belief, 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.

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, 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 Oriental Carbon & Chemicals 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 Relation Advisors.

We have uploaded our 'Results & Investor Presentation' for the Quarter and 9 months ended 31st December 2022 on the stock exchanges and Company website. Hope each of one had a chance to go through the same.

During Quarter 3 FY23 the Company's clocked revenues of Rs. 104 crores a growth of 8% year-on-year. However, volumes were impacted due to disruption on account of the war and other issues mainly in Europe. EBITDA has also grown by 19% to Rs. 23 crores and PAT stood at Rs. 10.4 crores. Margins were impacted due to higher input cost and freight cost. We also could not get the expected allocations from North America this year primarily due to high freight rates and we are approved with our customers there and expect to be more competitive for next year and win the business then. As a result we do not expect to start the second phase of expansion of our project right now and we will again review the situation in the next 6 months.

In spite of this year being very challenging on sales and cost we are comfortably generating surplus free cash flow. Debt reduction is going at a good pace. We are even paying some term loans early to save on interest cost. By the time our demerger appointed date comes around we expect to have less than 85 crores of term loans to remain in the books. This is a very low and very comfortable amount and this is an extremely positive situation to be in.

The demand sentiments for a majority of the automotive segment such as passenger vehicles, commercial vehicles and tractors have remained healthy aiding in the improved offtake for the industry participants. The domestic automobile sector has experienced a robust resurgence in the current fiscal year aided by a recovery in the economic activity and greater mobility and is expected to grow at high single digit levels across segments in FY24.

Commercial vehicle volumes could see a growth of approximately 9% and passenger vehicles to see a growth of approximately 10%. A favorable mix of factors is propelling demand for commercial vehicles to the pre pandemic peak in the ongoing financial year added by robust recovery in demand due to the increased government spent and infrastructure development, increased fleet utilization, better availability of financing and replacement demand which will all support sales of commercial vehicles going forward.

The Indian tire industry will be able to scale a turnover of Rs. 1,00,000 crore in the next three years on the back of new capacities. The industry has completed an investment of Rs. 35,000 crores in the last three years in new capacity creation and debottlenecking with the major beneficiary being truck and bus radials and passenger car radials. In the recent ATMA summit they are projecting growth at a double digit CAGR for the next 10 years which augers very well for us. They are talking of tripling in the next 10 years. The trend of shifting production out of China along with the competitive and conductive environment is making India a preferred global supplier of tires.

Coming to our demerger:

The demerger of the chemical business undertaking of the Company to OCCL Limited is progressing very well. SEBI and stock exchanges have given their approval for the scheme and we have filed the application in NCLT Ahmedabad. The scheme is pending before the tribunal for the sanction and approval. We expect all the shareholders to support the scheme very well for the meeting which will be held under the NCLT directions and this will be a very important step in the growth of our Company.

Now, I would 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 Q3 FY23 stood at Rs. 103.6 crores as compared to Rs. 95.8 crores in Q3 FY22 a growth of 8% year-on-year and for 9 month FY23 it was Rs. 363.5 crores a year-on-year growth of 28%. EBITDA for Q3 FY23 stood at Rs. 23.4 crores as compared to Rs. 19.7 crores in Q3 FY22 a growth of 19% and EBITDA for 9 month FY23 stood at Rs. 71.1 crores as compared to Rs. 66.8 crores in the 9-month FY22 a growth of 6%. EBITDA margins stood at 22.6% for Q3 FY23 and 19.6% for 9-month FY23. Profit after tax for Q3 FY23 stood at Rs. 10.4 crores as compared to Rs. 10.6 crores in Q3 FY22 and stood at Rs. 32.2 crores in 9 month FY23 as compared to 35.6 crores in 9 month FY22. PAT margins stood at 10.1% for Q3 FY23 and 8.8% for 9 months FY23.

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. The first question is from the line of Saravanan Balakrishnan an Individual Investor. Please go ahead.

**Saravanan Balakrishnan**: Sir, my first question is primarily on the raw material and freight cost like from January the freight cost based on like Baltic Dry Index has significantly come down and even the sulfur cost has come down, so will this benefit pass on in the coming quarters that is question one and on the last conference call you mentioned like the pricing could only be passed to the customer with a time lag, so could you elaborate more on that?

**Akshat Goenka**: Yes you are right the reduction in sulfur and the reduction in freight cost are all positives for the Company and should help us in the future and yes you are right that there is a time lag is passing on the prices, but that has now been corrected because the prices have stabilized or are coming down now so that has now been corrected. So, that was an issue till earlier quarters, but now now.

**Saravanan Balakrishnan**: Sir you mentioned about like different OEM tyre companies like have communicated about expanding multiple times in the next like 5 years to 7 years, is there any interesting trend or again feedback coming from like the OEM like partners?

**Akshat Goenka**: You are talking about?

**Saravanan Balakrishnan**: Like from a broader standpoint like even last time you spoke about different characteristics like this portions are getting more on the insoluble sulphur product from that standpoint I am asking.

**Akshat Goenka**: These are the characteristics which continue and there is nothing new to add because this is not something which is developing on a daily basis. So, the concerns of the customers remain the same and these are the parameters on which we will continue to excel and sell our product.

**Saravanan Balakrishnan**: And also like the review of expansion of the second phase like I think that will again revisit next year post how the demand is looking?

**Akshat Goenka**: Yes, we will evaluate it after 6 months.

**Saravanan Balakrishnan**: And one last question sir about the global insoluble Sulphur downturn like any signs of existing capacity like getting reduced or like new capacity coming in especially from Flexsys ?

**Akshat Goenka**: No, I mean I have not heard of Flexsys talking about producing or expanding their capacity.

**Moderator**: Thank you. We have the next question is from the line of Viraj Shah from Shah Investments. Please go ahead.

**Viraj Shah**: At the result I can see the top line has grew by 8% in Quarter 3 on YoY basis and 28% on 9 month basis you mention that the volumes are impacted, so this would be on realization front or can you show some color on that?

**Akshat Goenka**: Yes the volumes were impacted and therefore for the quarter the volumes were less than what they were on the earlier quarter.

**Moderator**: Thank you. The next question is from the line of Karan Mehra from Mehta Investments. Please go ahead.

**Karan Mehra**: Can you give some commentary on how our business is going in Europe since it is a 50% plus contributor also in case you can elaborate something on the current demand scenario?

**Akshat Goenka**: So, from a market share perspective our business is stable and growing in Europe. However, there was a sharp downturn last year in Europe which resulted in lower offtake overall capacities and this year first things were looking quite bad, but now signs are more encouraging coming from Europe so we have to wait and watch and see how it unfolds.

**Karan Mehra**: Sir our EBITDA margins have reduced to 20%, 22% levels which earlier we used to maintain about 27% to 30%, so why are not we able to pass on these cost even when there are only a few players for this insoluble sulphur ?

**Akshat Goenka**: It is not about few players or more players the fact is that today the global capacity utilization is I would say 70% or below. So, of course that demand supply mismatch has been there for some time and it will be there till demand of the product does not grow and the economy does not grow. Secondly, as you always said that apart from margins what we try to focus on is a fixed margin per ton and as the sales price goes up and the turnover goes up even though the margins maybe the same or there about even they go up or down the percentage term will reduce and the vice-versa will happen in case selling price comes down and the cost go down suddenly for the same profit the margin will look higher.

**Moderator**: Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

**Samarth Singh**: The China sunshine having expanded the capacity I think China now is finally become sort of helped gone from being a importer of insoluble sulphur to the neutral or maybe even net exporter , so have we seeing them get more aggressive in trying to get validations from the MNC clients and trying to gain market share there?

**Akshat Goenka**: I would say that China is now competing in Asia along with China, but their movements still has not happened towards the West.

**Samarth Singh**: So, you are not seeing any more aggression from them?

**Akshat Goenka**: Aggression in Asia, but not in the West also if you actually saw the recent remarks that they let out it appears that this capacity expansion that they are going to do or have done or something of that sort they may shut down the old capacities that is what they have eluded to in the remark at least that is what I would call out of it.

**Samarth Singh**: Also I think Shikoku is planning an expansion at 20% increase in their capacity?

**Akshat Goenka**: Yeah we have read the news that they are planning on increasing by 10,000 tons approximately adding another line let us see how that unfolds. It is difficult for me to comment and the strategy at this stage.

**Samarth Singh**: But in general you think that given the under capacities your competitors would not be going ahead, but it does not seem like they are maybe they have lower expectation where they are going ahead and putting capacity?

**Akshat Goenka**: We also do not know whether the likes of Shikoku will put this capacity there may be in their plants also quite old maybe they will shut down an old plant it is very difficult to speculate on their mindset for it because we do know the prices they are selling at, we know their written profile that are happening. So, it is difficult for me to comment on the strategy behind this.

**Samarth Singh**: And then just a question on Europe I think if you can just give some color I think you said that our volumes were lower quarter over quarter in your, but on a YoY basis at least I think at least passenger vehicles sales have been pretty strong in your months of October, November and December, so have we seen an increase there or are we more towards commercial vehicles in Europe?

**Akshat Goenka**: I will let Anurag answer that, but just one small thing that we noticed in Quarter 3 we notice a lot of companies across the globe did inventory correction. So, they had built up inventories and then they started reducing it and we saw some order reductions coming because of that and now we are seeing things normalize back and the orders coming in.

**Anurag Jain**: No, you are absolutely right Akshat and I just want to add two points that we sell to tyre companies and whether it is more on passenger vehicle or the commercial vehicle is not something that we can make out as of now and yes the exports sales to Europe were lesser in Q3 versus the last year Q3, but there were two factors demand and inventory correction and I think that is going to be corrected in the coming quarters.

**Samarth Singh**: Last question from my side if you can please provide me just with the cash debt and investments on the balance sheet as of 9MFY23 ?

**Akshat Goenka**: The cash debt and investments.

**Akshat Goenka**: On debt I gave my expected projection for long term, term loans as of 30th September to be sub 85 crores because we are in process of repaying quite a lot. What is the exact position as of now.

**Anurag Jain**: The long term debt today as on 31st December was 114 crores.

**Akshat Goenka**: 114 as on 31st December so we expect that to reach sub 85 by 30th September and cash and investments.

**Anurag Jain** Investment and cash put together was 170 crores.

**Samarth Singh**: And you said sub 85 around the time of the demerger expecting to be around 30th of September?

**Akshat Goenka**: I mean we expect the appointed date to be sometime in Quarter 3. So, we do not expected to be earlier than 30th September, but 30th September or in some time in that quarter.

**Moderator**: Thank you. The next question is from the line of Nehal Jain from SK Securities. Please go ahead.

**Nehal Jain**: What is the outlook on the Indian tyre industry?

**Akshat Goenka**: The outlook on the Indian tire industry in the recent ATMA summit they said that they will grow three times in the next 10 years which is a double digit CAGR.

**Nehal Jain**: But we have heard that for the international outlook we have heard that in Europe there is a slowdown in the tyre manufacturing sector because of manpower issues and higher energy cost, so what is your views on that?

**Akshat Goenka**: Our view on that is that I would expect Europe to be stagnant in the coming years and maybe grow in a very minor way. I think the US and Latin America would do well, India of course is going to go at double digits, Asia is also expected to grow.

**Nehal Jain**: But do you think that what impact will India tyre manufacturing segment will boost or what impact will that have on us?

**Akshat Goenka**: I am just going by the estimates that they themselves put out for themselves of double digit CAGR growth for the next 10 years that is their own estimates.

**Nehal Jain**: And with respect to radialization how will that lead to our growth?

**Anurag Jain**: So, what happens is that this is something which is now attaining maturity, but however still little bit away from perfection whenever radialization grows in soluble sulfur consumption grows. So, the impact is that the tyre Company growth say by 10% insoluble sulphur consumption would grow by say 12%. So, the growth of insoluble sulphur consumption should be about 1% to 2% more than the tyre industry growth.

**Moderator**: Thank you. The next question is from the line of Aditi Sawant from ADM Advisors. Please go ahead.

**Aditi Sawant**: I have couple of questions first is how is the penetration levels in US and China currently and where do you see that growing in next one or two years, second is if you can help me with your volumes and utilization for this quarter and 9 month?

**Akshat Goenka**: China penetration is next to nothing today and we have no prediction where it is going to reach in the next two years. It is everybody's guess, but we would assume it to remain what it is today. North America we have been selling a decent amount over the last few years because we have certain plants allocated to us. It is an extremely important focus market and we have over the years been trying to get approvals and then allocations to significantly ramp up our sales in North America. We finally have all the approvals in place and continue to work towards more approvals and I am very confident that in the next year or two years as things progress we will start getting significant allocations as well from that market. This year we had some issues because obviously the freight cost was very high. So, we were not as competitive as they wanted us to be, but now freight cost have come down a lot and I am sure that they are going to be very competitive going forward.

**Aditi Sawant**: Can you just comment on volume and utilization for this quarter and 9 month?

**Akshat Goenka**: Sorry we do not give this kind of figures.

**Aditi Sawant**: Just last question if I can ask is have we added any new tyre customer?

**Akshat Goenka**: Yes we have added new tyre customers.

**Moderator**: Thank you. The next question is from the line of Saravanan Balakrishnan an Individual Investor. Please go ahead.

**Saravanan Balakrishnan**: So, one quick question about Duncan engineering so last year it was mentioned like we have significantly reduce the debt and had a good spike in the sales, so just want to understand the end game with Duncan engineering and also like are there anything that we are doing to improve the repeat order rates from the customers because last time my understanding is like 30% of Duncan engineering revenues coming from top 5 customers, so are we also trying to diversify that number to wider growth?

**Akshat Goenka**: So, I will try to answer all those questions I will do my best to do that look as far as Duncan engineering is concerned we are at a growth where we are rapidly growing in that Company, we have been growing for the last couple of years and this year also we are on track to grow 30% from the previous year and we are working on adding more people, more products and as well as adding more customers. So, we are certainly in a growth phase in that Company and I do not know how to define the end game, but the strategy at Duncan is to continue to grow by adding new products and new customers.

**Saravanan Balakrishnan**: And regarding the margins, I think the current ones are the baseline matrix that we are again looking at?

**Akshat Goenka**: No, I have never said that current is the baseline we are looking at. Our target is to maintain 15% EBITDA margin in that business which is very good for that industry. From an investor perspective actually one should also look at the ROC and ROE of Duncan. I think it is a low so far we managed to do all this with very low CAPEX. So, the free cash flow generation is quite good.

**Moderator**: Thank you. The next question is from the line of Riya Verma from NR Securities. Please go ahead.

**Riya Verma**: Most of my questions have been answered I just have two questions firstly how do you see the demand supply dynamics for the insoluble sulphur in the next two, three years?

**Akshat Goenka**: We would like to always say that we see it improving because we do not see significant capacity coming on line and demand should keep improving, but last few years demand has been stagnant unless we have some new external issues demand should be improving going forward.

**Riya Verma**: Secondly do we see our market share increasing going ahead beyond that?

**Akshat Goenka**: Yes that is what we are consistently working towards every year.

**Moderator**: Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani**: Sir just one question on your US side of the business, so in this current turnover do we have some contribution from US coming in and can you help us quantify that also with the approvals that you mentioned that are now lined up going forward what kind of turnover are we expecting from USA next two, three years?

**Anurag Jain**: So, as Akshat has already explained America is a major focus market product for us and yes currently also we are getting contributions from America and we do see majority of our growth in the next two, three years coming from America. There was one more question you asked I missed that can you repeat that.

**Yogansh Jeswani**: Sir if you could quantify that percentage that we are getting from US out of the total turnover?

**Anurag Jain**: No, unfortunately that is something I cannot specify as of now because of competition issues.

**Yogansh Jeswani**: Next is on your margins so we do understand that the industry is facing difficult times, but going forward do you think that the margins that used to do 30% plus kind of those will come back once the industry normalizes or do you think that those margins cannot be maintained?

**Anurag Jain**: There are two aspects to it one is as Akshat pointed out earlier to a similar question we look at margins in rupees per ton basis and when raw material prices are high and even if the margins are maintained as an overall percentage EBITDA comes down because the turnover it goes higher. So, for example, if the margin is 40% at Rs. 100 and, is again Rs. 40 and Rs. 200 then as a percentage it will come down. Now assuming that the raw material prices comes down to the levels that they were two, three year ago then yes it will our EBITDA margins would recover even at the same rupees per metric ton margin. The second is of course as the sales ramp up and there will not be any significant increase in fixed cost again our margins will come down it will help in our EBITDA margins going up.

**Akshat Goenka**: See freight cost is a very critical element of this because freight cost is not something that we can ever recover from our customers because our competition is not exposed to that. So, if freight cost are high then our margins will be lower if freight cost come down then that helps our margin.

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

**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 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.