



“Oriental Carbon & Chemicals Limited Full Year-ended FY15 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Full Year-ended FY15 Earnings Conference Call of Oriental Carbon & Chemicals Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arvind Goenka – Promoter and Managing Director of OCCL. Thank you and over to you, sir.

Arvind Goenka: Good afternoon and a very warm welcome to everyone. Along with me I have Akshat Goenka – Joint Managing Director and Mr. Anurag Jain – CFO, and SGA, our Investor Relations Advisor. I hope you have received our Results and Presentation by now, for those who have not, you can view them on our website.

This is our First Conference Call post FY15 Results with Investors and Analysts, so let me start with a brief introduction of our company OCCL – OCCL belongs to JP Goenka Group of companies, it is into manufacturing of Insoluble Sulfur and also manufactures Sulfuric Acid. We are one of the leaders in the production of Insoluble Sulfur for the Tyre industry across the globe both in terms of quality as well as quantity. Insoluble Sulfur is used as a vulcanizing agent in manufacturing of tyres. Diamond Sulf is the brand, under which Insoluble Sulfur is sold by us, and it is offered in various grades like high dispersion, high stability, and special grade. We have a state-of-the-art manufacturing facility at Dharuhera, Haryana, and Mundra, SEZ, Gujarat. Since inception, our capacity of Insoluble Sulfur has increased 7.5x to 23,000 MT. Our current market share across the globe is 11%. We have presence in all continents across the world, and a wide customer base, that is 40 plus customers. Our major customers include Continental, Bridgestone, JK, Pirelli, CEAT, Goodyear, Apollo, MRF, etc. We have a subsidiary SDL, it manufactures Tyre Valves and Pneumatic actuators. Our focus is to grow Pneumatic side of the business. I hand it over to Akshay to brief you all on the industry.

Akshat Goenka: Hello and good afternoon everyone. Before we move on the financial section, let me give you a small update on what is happening in our industry at a macro level. Insoluble sulfur is largely used in Tyre industries. We know that all the major Tyre companies across the globe are planning an expansion to the tune of 28 billion dollars till 2020. Insoluble sulfur forms a critical part in the manufacturing of Tyres. Hence the consumption for this product can be linked to the growth in the Tyre industry. Another factor that will play a key role in the growth of Insoluble Sulfur is the radialization rate. The proportion of Insoluble Sulfur is more in radial Tyres. The consumption in India will increase more with the improvement in the radialization rate especially in the commercial vehicle segment. To summarize an increase in the rate of growth is mainly attributed to huge investments planned by the Tyre companies and a shift in the ongoing trend in the industry towards radialization and premium Tyres including high performance winter and load rolling resistant Tyres. In this growing industry scenario OCCL is

in a sweet spot to leverage its manufacturing capabilities, brand, long term relationships with domestic as well as multinational companies and a strong sales network across the globe. Over the years in this business we have developed some strong points. Strong product portfolio, our existing and under development products with various grades satisfy diverse compounding requirements of the leading Tyre manufacturers. We have an in-house R&D team, they work on a continuous basis to improve quality of products, and an in-house technology team that helps to maintain the technical and quality edge at each production stage. We have made capital investments, we have expanded capacity of IS from 3000 metric tons to 23,000 MT, and we also have land and common infrastructure available for further expansion at Mundra, as well as Dharuhera. We have customer approvals, a minimum of 24 months is required by customers to approve and validate the products from a new supplier.

To summarize – technical knowhow and a long approval cycle and gestation period act as a barrier to entry for a new player in this industry. Now I would like to hand over the line to Mr. Anurag Jain, CFO, to update you on the operational performance of the company for the full year ended FY15.

Anurag Jain:

Thank you, now I will take you all through the financials of the company. Revenue for the financial year 2015 is Rs.282 crores, which is a growth of 8% on year-on-year basis compared to Rs.262 crores for financial year 2014. Growth in revenue is mainly attributable to about 10% growth in export volumes and 6% in domestic volumes. Revenue from Sulfuric Acid and Oleum also increased from 13 crores to 21 crores. For full financial year 2015, earnings before interest, debt, depreciation, and amortization stood at Rs 84.14 crores, compared to Rs 71.64 crores, in financial year 2014, a year-on-year growth of 17%. The improvement is on the back of operational efficiencies and increased utilization of our existing capacities. Profit after tax for financial year 2015 is Rs 51 crores compared to Rs 40 crores in financial year 2014, a year-on-year growth of 27%. Net profit margin for the year is 18% as against 15.5% in the previous year. The company's total debt as on March 2015 is Rs.90.6 crores, out of which Rs.25.7 crores is working capital loan and Rs.64.9 crores is long term debt. Our long term debt equity ratio currently stands at 0.26. With this I would like to open the floor for questions and answers.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of G Vivek from GeeCee Investments. Please go ahead.

G Vivek:

Thanks a lot first of all for coming online and interacting with your investors and customers, a very good signal, No. 1. No. 2 I just wanted to know about the impact of Euro depreciation versus Indian rupee and how long will it last, because we are the duopoly and we have sort of pricing power, are we not in a position to pass on the cost to our customers and the second question was about Mundra plant expansion and US market foray, what is the status.

- Anurag Jain:** As far as the price of Euro is concerned, vis-à-vis the rupee, the result that we have present before us includes a period where the Euro was at its lowest. It has recovered since then. We do have pricing formula with certain customers which includes the various factors of costing and pricing so that takes care in some ways, but otherwise also we feel that the current level of Euro is not detrimental to the performance of the company. As far as your question on the capacities at Mundra vis-à-vis US is concerned, we are making our concentrated effort in the US market. We have started supplying to two plants in US, we have already made a beginning, and the effort I think is going to bear more fruits during this year, as the approval process are all in the advanced stages with many Tyre companies.
- G Vivek:** Is there any of the major Tyre vendors with whom we have still not on their approval list, Pirelli is one, and are there some other Tyre majors who have not approved us.
- Anurag Jain:** Pirelli has already approved us, Pirelli, we have already started supplying. So Pirelli has already become one of our good customers. If you look at the global scenario, the only major Tyre Company which is not in our portfolio today is Michelin.
- G Vivek:** Okay, and what is the, we definitely would have approached them and what is their response?
- Anurag Jain:** See the problem is that Michelin requires a lot of quantity for approval, so they want a commitment for large quantities, currently we are not in a position to commit that much quantities to them.
- G Vivek:** Until our Mundra plant expands, Mundra expansion happens?
- Anurag Jain:** Yes.
- G Vivek:** And when is that expected to be completed?
- Anurag Jain:** We hope to formulize our plans in the next six months as to how to move ahead, but hopefully it will be very soon.
- G Vivek:** The plants, or commissioning?
- Anurag Jain:** No, we are going to start construction hopefully in this financial year, and we are going to formulize our plans in the next three to six months, so maybe in our next call, we will have a more concrete thing to tell you about it, advance stages of planning.
- G Vivek:** How big an opportunity size for our product. Sir?
- Anurag Jain:** How big is the?
- G Vivek:** How big is the opportunity size?

- Anurag Jain:** Opportunity. See the total global market today, for our kind of product is about 210, 000 tons, and there are three big suppliers, Flexsys is there and we there. So, we feel that there is an opportunity for at least a growth up to 40,000 metric tons.
- G Vivek:** So we are one, Flexsys third is a Japanese company?
- Anurag Jain:** That is right.
- G Vivek:** Any impact on this new Road Bill which has been passed and will it lead to increased radialization of Tyres in India and increase consumption in India itself?
- Anurag Jain:** That is true. We are looking forward to increase in radialization, it has already started. We believe that the radial Tyres in India for commercial vehicles are growing at a much faster pace than the normal growth, which is good news for us.
- G Vivek:** Okay, because so far the penalty was on the transporter itself as per my knowledge it was very low, but now ever since in this new Bill even the penalty in the case of overloading of trucks is applicable even the transporter and the toll operator, and the consignee, and this cross ply was being used mostly because of overloading facility, so do you think implementation can happen, or sort of we have to wait for to see it on the ground, and what is the status of the bill Sir?
- Anurag Jain:** I would say, we have to see, it would be there, but what form it takes and how far it goes is something that we need to see. However, even without the bill, the radialization pace has picked up in India and if the bill comes, it will definitely add to the growth rate.
- G Vivek:** Tepid, top line growth has been very low, only 8%, why?
- Anurag Jain:** See, now in the earlier part of the year, we were waiting for some of the approvals to kick in, when they have kicked in, we have now reached our full capacity, so that is why the top line growth was about 8%, we were expecting it to be 10% anyway, so it is not much different, it is about 1 or 2 difference in growth, but mainly because there was some delay in approvals say from Pirelli and other for about 2 or 3 months,
- Moderator:** Thank you. The next question is from the line of Jinal Seth from Multi-Act. Please go ahead.
- Jinal Seth:** I am new to your company, just wanted to understand that if I were to look at your company prior to five to six years back, there has been a big shift in your margin profile, so obviously that has come from your raw material as well as the manufacturing expenses, where the alpha has come from, can you explain where the structural changes happened and wanted to get a clarity on that?
- Anurag Jain:** There are four to five developments, one is, our capacities have increased, that means our overheads are more evenly spread, secondly, we have debottlenecked the plant, which means we have set in some efficiencies, the third is that other than efficiencies we have been working

on the utilities part also to be very, very capable in that aspect so that our overall margins are maintained, once our overall margins are maintained, and we increase our quantities, definitely it will add to the bottom-line straightway.

Jinal Seth: No, but if I were to still look at it, because when you say utilities, then if I were to look at it separately as power and fuel that as a percentage of sales has to remain high, but as a raw material and your other manufacturing expenses have come down drastically, so I can understand scale clearly, but is it only scale that has really helped you a lot, is there a change?

Anurag Jain: No, that is what I am saying, it was scale as well as the way we worked on increasing our efficiencies across the lines in manufacturing.

Jinal Seth: Okay, you believe that the margin profile that we are seeing in the last four, five, six years, that is more or less sustainable, is what you are saying?

Anurag Jain: Yes, we feel that it is a sustainable margin profile.

Jinal Seth: Can you repeat the competitors that you mentioned; you have one Japanese competitor, what is the name of that company? Please.

Anurag Jain: The name of the Japanese competitor is Shikoku.

Jinal Seth: Shikoku, and there were three players, you mentioned, right.

Anurag Jain: That is Flexsys, which is basically Eastman Chemicals.

Jinal Seth: Can you lastly talk about the trend of radialization, so exports is a major contributor of proportion of your sales?

Anurag Jain: Right.

Jinal Seth: What percentage would that be?

Anurag Jain: Around 70%.

Jinal Seth: Okay, then in that case can you talk about the radialization trend, in the sense what is that as a percentage of the market and how is that growing?

Anurag Jain: Yes, so far as exports are concerned it is a very mature market, and mostly radialized. As far as India is concerned there now we have radialization in the car segment, which is nearly complete, however there is no radialization in the 2-wheeler segment, and the commercial vehicle segment. The big boom in the radialization is now coming in the commercial vehicle segment, which is being driven by more efficient vehicles, better roads, and infrastructure. We feel that this where the demand for Insoluble Sulfur is going to come from as far as India is

concerned. We always say that, and it is happening till now that even though the growth in Tyres in India is at lesser pace, the demand for Insoluble Sulfur increases in double digits say 11 or 12%.

Jinal Seth: Do we have a number like what is radialization in the CV space, as a percentage of the CV space, any idea?

Anurag Jain: I think it is around 25%.

Jinal Seth: And where can that go till in the next few years?

Anurag Jain: We are hoping it to cross 75% by 2020, even if it does 60, it is good enough for us.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: I just wanted to confirm what is the FY15 volume of Insoluble Sulfur sold?

Anurag Jain: As a policy we have decided not to disclose volumes anymore, because none of our competitors disclose volumes, and that puts us at a disadvantage vis-à-vis them.

Pritesh Chheda: The capacity that we have which is about 23,000 tons, up to what level can you utilize this capacity?

Anurag Jain: Can utilize it up to 100%.

Pritesh Chheda: Can it be in excess of 100%?

Anurag Jain: As is the case with any chemical plant, if they run continuously in an efficient manner, there is always some upside available.

Pritesh Chheda: Okay, second, can you tell us the realization trends, which are there on the product line?

Anurag Jain: The realizations are more or less stable.

Pritesh Chheda: And at what levels are this?

Anurag Jain: I will not be able to tell you the sale price.

Pritesh Chheda: The realizations are stable since for about what period now?

Anurag Jain: In the last two years they have been more or less stable.

Pritesh Chheda: And if they have to fluctuate what it has to link with?

- Anurag Jain:** There is no linkage with any market phenomena as far as Insoluble Sulfur is concerned, however if the major Insoluble Sulfur manufacturer that is Eastman, decide to make some substantial shifts in the pricing structure obviously that will impact the other suppliers also.
- Pritesh Chheda:** How about the raw material, would it be linked with that?
- Anurag Jain:** The raw material side is not normally linked with the sales price, except for where there is formula.
- Pritesh Chheda:** Okay, and what raw material shall we use actually?
- Anurag Jain:** The two raw materials that we use are sulfur and one is Tyre processing oil which we call coating oil.
- Pritesh Chheda:** They are somewhere linked with crude?
- Anurag Jain:** There is no direct linkage with crude, though they both are refinery products, but sulfur has a life of its own, it depends on the demand and supply of sulfur per se so there is no direct linkage. Similarly there is no direct linkage in the coating oil also, though it fluctuates and it is very broadly follows the dips and highs of the crude oil.
- Pritesh Chheda:** And this sulfur has to be organic, organic sulfur?
- Anurag Jain:** Organic means?
- Pritesh Chheda:** It is natural sulfur, or it is ...?
- Anurag Jain:** We buy sulfur which is produced by the refineries as a byproduct; it is not mined sulfur.
- Pritesh Chheda:** And second I was looking at your presentation and I heard your initial comments, you said that the market for your product line is about 210,000 tons, is that the correct number that I heard.
- Anurag Jain:** You see there are no published figures about the demand, this is what we estimate from some reports that we have seen. The report estimates the market to be about 250,000 metric tons, out of which we estimate that 40,000 metric tons of demand is for inferior material, which are mainly produced by some Chinese manufacturers, so that is in a different league of its own, they are in a different class of material all together, so we estimate that 210,000 is the demand for the Insoluble Sulfur that the top 3 companies in the world produce.
- Pritesh Chheda:** And I was looking at your presentation radialization Insoluble Sulfur to Tyre rubber ratio, I actually did not understand what does this mean?
- Anurag Jain:** Can you repeat what you just said.

- Pritesh Chheda:** There is slide 18, and you have put a graph, radialization of Insoluble Sulfur to Tyre rubber ratio, what does this mean actually?
- Anurag Jain:** This is again from the Notch Report which says that if you want to estimate the Insoluble Sulfur to Tyre ratio, then that is what they are showing here, to what is the ratio of Insoluble Sulfur to Tyre rubber worldwide average.
- Pritesh Chheda:** Let us say 100 kg of Tyre rubber is consumed then about 1.5 of Insoluble Sulfur is consumed?
- Anurag Jain:** What it is trying to show is that as the radialization increases, the dosage has also increased, earlier it used to be 1.3 kg and now it is 1.42 kg, the increase in the consumption of Insoluble Sulfur vis-à-vis the Tyre rubber is because of increased radialization.
- Pritesh Chheda:** And then you have put a below chart which shows the demand, now you have put a 25% demand between 2015 to 2020, so in five years you expect that it should basically compound at about 5 odd percent per annum?
- Anurag Jain:** That is what the Notch report says, yes.
- Pritesh Chheda:** And lastly when I was looking at your quarter 4 numbers, it seems that the other expenditure for this quarter is higher if I look at for the past so many quarters now, is there anything that you want to highlight in other expenditure number?
- Anurag Jain:** For the quarter?
- Pritesh Chheda:** For the fourth quarter, it is about 17.5 crores, now this number if I look at for like 1,2,3,4,5,6,7,8 quarters it is like the eight quarter is the highest number, is there anything one off or anything in this?
- Anurag Jain:** One off is of course, one of the major things is the CSR expenditure which we have incurred in the last quarter for the year, which is about Rs 90 lakh.
- Pritesh Chheda:** Anything else, or it is routine?
- Anurag Jain:** And obviously, out of the four plants, two plants had their annual shutdowns in the last quarter, and the third reason is that the new Mundra plant repairs were not there earlier, so their first shutdown, these shutdowns happened in the last quarter, the annual shutdowns.
- Pritesh Chheda:** There were two shutdowns in the last quarter?
- Anurag Jain:** Two shutdowns of two lines, annual shutdowns. You see every chemical plant has to have an annual shutdown, and we have four lines of Insoluble Sulfur, and two lines were under annual shutdown in the last quarter, that is why the figure appears more.

- Pritesh Chheda:** There is repair and maintenance cost, which has been built in it?
- Anurag Jain:** It is a budgeted cost; it is only that more part of it fell in the last quarter.
- Pritesh Chheda:** And I just wanted to check lastly on the consolidated ...
- Moderator:** Sorry to interrupt, Sir, may I request you to please return to the queue.
- Pritesh Chheda:** On the consolidated side there are two other businesses, I think I saw pneumatic and auto components or something, if you want to throw light there, what it is, and why is it part of this company?
- Anurag Jain:** Schrader Duncan is a subsidiary of Oriental Carbon, and Schrader Duncan has two businesses, one is Tyre valves, and one is the pneumatic (fluid power & automatic) actuators. Pneumatic actuators is doing well, and is a good business, the Tyre valves business is currently under stress, and these are the reasons why we are seeing some negative figures because of the stress in the Tyre valve business.
- Moderator:** Thank you. The next question is from the line of Milind Desai from Angel Broking. Please go ahead.
- Milind Desai:** As far as threat from imports from China, what is your take on that, because how much do you think the dumping of Tyres in Indian market is a threat to the company in terms of tier production, and just overall threat from China?
- Anurag Jain:** As far as the Chinese industry of Tyres is concerned, it is currently under stress, the reason being that America has imposed antidumping duties on the Chinese manufacturers. This has resulted in some big plants in China closing down temporarily also. As far as imports into India are concerned, if this happens then it will be for the international quality Tyres. That is okay with us because they would still be consuming the Insoluble Sulfur produced by the big three. Secondly there are many big international manufacturers who are coming into India, and expansion is happening into India, Michelin is coming, other people are coming, and one of the reasons why I see the Indian Tyre market grow is precisely this that America has imposed antidumping duty on Chinese Tyres. So that opens up a very big opportunity window for manufacturing of Tyres in India. I do not see the Tyre imports from China being a threat for our products as of now.
- Milind Desai:** I am also relatively new to your company, so far as Eastman is concerned, how much share do they have in India or is it just overseas?
- Anurag Jain:** See our share is between 55 to 60% and I would say 30% to 35% would be their share.
- Milind Desai:** This is for India right?

- Anurag Jain:** For India right.
- Moderator:** Thank you. The next question is from the line of S Ranganathan from LHP Securities. Please go ahead.
- S Ranganathan:** My questions have been answered and congrats to the management for a higher dividend declaration after a number of years, all the best.
- Moderator:** Thank you. The next question is from the line of Deepan Sankar from Trust Line PMS. Please go ahead.
- Deepan Sankar:** I just want to understand what kind of CAPEX we would require if we have to increase our capacity from 24 million tons to 34 million tons which you have put up in our presentation?
- Anurag Jain:** See normally, the CAPEX for this kind of expansion would be around 150 crores for us .
- Deepan Sankar:** This is for per million ton?
- Anurag Jain:** 11,000 tons yes.
- Deepan Sankar:** How much time it requires for us to reach 100% utilization levels?
- Anurag Jain:** It varies, when we started Mundra it was a Greenfield plant, so it required much more time, but when we are expanding in the same plant, then the gestation period comes down quite significantly.
- Deepan Sankar:** Just wanted to understand globally which are the countries where we are leaders and which are the countries where we could scale up our presence much more than the current levels?
- Anurag Jain:** The countries where the possibility lies for us for expansion, the biggest country is US, and then China.
- Deepan Sankar:** Will our future growth be purely driven by volumes or even on realization is there a possibility?
- Anurag Jain:** Realization, we do not anticipate any possibility, or we don't budget for it, let me put it this way, so we would be growing on capacities as well as the efficiencies that come in with the capacities.
- Moderator:** Thank you. The next question is from the line of Rajat Sethia who is an investor. Please go ahead.
- Rajat Sethia:** I wanted to understand if you are facing any more fresh competition in your geographies where you are operating currently?

- Anurag Jain:** Currently, we do not have any information of fresh competition coming in.
- Rajat Sethia:** All right, and what could be the outlook for your exports and domestic markets in this current year given last year was not a very good year for us?
- Anurag Jain:** No, last year was good, it was just marginally lower than what we expected in terms of top line, and in the current year also we are expecting about 8 to 10% growth in our sales.
- Rajat Sethia:** In both the geographies, I mean India and outside?
- Anurag Jain:** Absolutely.
- Rajat Sethia:** Okay, you just mentioned that normally it takes 150 crores for 11,000 tons of capacity, does that mean we are incurring something less than that or are we also going to do the similar amount?
- Anurag Jain:** That is our estimate.
- Rajat Sethia:** And in the presentation we have mentioned that we would want to do 100% of the special grades of value-added Insoluble Sulfur, so wanted to understand, what is the current revenue mix coming from special grades or say value-added products?
- Anurag Jain:** I don't have the numbers in front of me, right, but it would be I think 50:50.
- Rajat Sethia:** Oh, 50% all right. How does a value-added product differ from the otherwise less value-added product in terms of margins?
- Anurag Jain:** There is a standard product which has been coming on, and then there are products which are a variation of the standard products in terms of addition of different ingredients, so these are one kind of products, and then the other value added products that we call is the product which is high dispersion and high stability, which are known HS and HD products.
- Rajat Sethia:** So, how do they differ in terms of margins for us?
- Anurag Jain:** No, there would not be much difference in margins, what it helps us in doing is it is creating a gap between the Chinese producers and ourselves in terms of quality, so that the entry barrier is maintained.
- Rajat Sethia:** My next question was around your entry into the North American markets, so in terms of margins from those two customers over there, to begin given we are new entrants there, are we operating on the similar margins that we are operating in other geographies or you know we have undercut there?
- Anurag Jain:** Let me put it this way, we have not given any special discounts to enter into the market.

- Rajat Sethia:** Last question from my side would be, there is a loan item in the balance sheet against a couple of residential flats in Bhiwadi, Gurgaon, and one more location, which is not mentioned, just wanted to understand was that for company purposes or is it some kind of compensation given to the promoters or say the management?
- Anurag Jain:** These loans are for flats purchased by the Company for employees who are working in Dharuhera,.
- Rajat Sethia:** Okay, so it is in the company books basically.
- Moderator:** Thank you. The next question is from the line of Naresh Kumar from Money Curves. Please go ahead.
- Naresh Kumar:** My question is on the annual maintenance which we had, just want to understand, you probably have four lines and each one of them could go on a quarter or something, so it looks like we had two of them this quarter, could we then expect some pickup in our tonnage in the next two quarters and what could it be, what was the capacity utilization in Q4 and could we expect a better capacity utilization in the following quarters?
- Anurag Jain:** See, the thing is that we have four lines altogether, 2 in Dharuhera, and two in Mundra. Out of these four lines when I was explaining the earlier question, I said, that earlier because Mundra lines were new, there was no annual shutdown there, this year was the first year when we took an annual shutdown for the Mundra lines, and that happened in the Q4. Right, as far as sales are concerned the sales were not affected by the shutdown because we had inventories coming in, so it is not that the shutdowns were done at the cost of the sales, so if you would look at it that way, our sales has been good in the last quarter and we are expecting to maintain or a little bit better sales in the Q1, 2015.
- Naresh Kumar:** And the cost incurred for the shutdown is one reason the other expense is high, because is a higher by more than 5 crores, YOY, so that could be one reason, is that a fair assumption?
- Anurag Jain:** Yes that is one reason, but if you see, year-on-year, then the other expenses you would see is a little bit less or equal, it is not more.
- Naresh Kumar:** No, it is still high, 12.75 to 17.5, this is a 5 crores increase in other expenses for Q4, so I can understand may be there is some CSR?
- Anurag Jain:** One is CSR, the other the major is repairs, One thing I missed. Because the last quarter, the sales was the highest, therefore there is increased expenditure on packing and freight also, which is a part of this.
- Naresh Kumar:** Okay, got it. So the other thing was on the exports side, that we have big part of our revenues from exports, and Euro was at a disadvantage in terms of the currency rates for us and I also see the margins are slightly lower in Q4, so we could expect a normalization of margins

because Euro is kind of appreciated and the INR is depreciated, so we could expect going forward a normalization of margins in FY16?

Anurag Jain: We expect normalization of the margins over the year, in the next year we are expecting that.

Naresh Kumar: And I see that our tax rate went down significantly in Q4, so is that a sustainable tax rate, the tax rate almost dropped by 60% in Q4, from 5 crores to 2.3 crores, so what should be the....?

Anurag Jain: The tax rate, you have to see for the year, not for Q4 please., so when you are looking at the tax rate, kindly see the annual result please.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi; You said that we are planning for 11,000 metric ton capacity expansion, so suppose we start the construction in the next couple of quarters, how much time it takes to start the plant to commission?

Anurag Jain: A normal project time is around 18 months.

Dixit Doshi; Okay 18 months, and you said that most of the going forward you expect most of the growth from the efficiency and the volume, so you do not expect the prices to go up much, can you just give us, you then shared the realization numbers also, so can you just give us the trend that over the last five to six years, what kind of price increase has been there?

Anurag Jain: The prices have been stable over the last four to five years, the last major correction in prices happened in 2008-09, when they went up substantially, but after that they have been stable for the last five to six years.

Dixit Doshi: Okay, not even a 5% increase annualized?

Anurag Jain: When I talk about price increase, you please understand I am talking in dollars and Euro terms, it would increase in rupee terms depending on the exchange rate, so for example earlier USD was Rs 45, now it is Rs 64, so obviously that increase is there, but when I talk about prices, I talk in international terms those have been stable.

Dixit Doshi: Okay, it is almost. You have given your competitor Shikoku and **Flexsys**, can you just share their capacity if possible.

Anurag Jain: They do not declare their capacities.

Dixit Doshi: Okay, they do not declare. There was some news that even one new entrant has come around two to three years back, Sinorgchem in China, right?

- Anurag Jain:** That is right, they have this year announced that they are withdrawing from their IS project, they are closing it down.
- Dixit Doshi:** Okay, they are closing it down, and what is the current demand supply scenario globally, if you can share?
- Anurag Jain:** I shared it earlier also, we estimate that the global demand of insoluble sulfur of the quality that we make is around 210,000 metric tons, and we expect it to grow at around 3 to 4% per annum annually globally.
- Moderator:** Thank you. Thank you. The next question is from the line of Raj Kala from Edelweiss. Please go ahead.
- Raj Gala:** When you do a Greenfield expansion, what is your asset turns that you generate on that capacity?
- Anurag Jain:** Asset turnover you are asking?
- Raj Gala:** Yes.
- Anurag Jain:** Normally for us it would be 1:1, but for a new person doing an entirely Greenfield expansion, it could be even 0.8 to 1, that is my estimate.
- Raj Gala:** And your outlook on margins going forward in the next 4 to 5 years, as the industry matures, will the margins or realizations remain stable or we have seen in some of the other industries also, where margins have declined significantly?
- Anurag Jain:** First of all, this industry is quite stabilized, it is a stable industry, it has been around from about 100 years, as far insoluble sulfur industry is concerned, secondly we feel that the kind of margins that we have are more or less achievable going forward in the next three to four years.
- Raj Gala:** Can you highlight something more on the other two businesses, that you mentioned that pneumatic one and the other businesses, what are the growth prospects of that?
- Anurag Jain:** These are the businesses of our subsidiaries, Schrader Duncan Limited, we said that there are two businesses, one is the pneumatic actuators and valves businesses, which we feel has a good future, and it has a good potential. It is making money even now, though it is directly related to the industry and capacity additions around India, so once the industry takes off, the business can grow very well. The other is the automotive part, which is currently under stress due to competition.
- Moderator:** Thank you. The next question is from the line of Vineet Agarwal from SKP Securities. Please go ahead.

- Vineet Agarwal:** My question is basically on SDL margins, there is an improvement in margins of both the segments, that is your automotive valves as well as fluid business, so what were the drivers which were taking this improvement, and where do we see it stabilizing.
- Anurag Jain:** As far as fluid business is concerned we see it growing and we see that if the projections of the growth in India are correct, we see the margins going up. As far as the automotive tyre industry is concerned, the margins are under pressure today, we are operating on a wafer thin margins and as the competition is now, we feel that that the current year will be the same for us, it will still be on a very tight margin.
- Moderator:** Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.
- Manoj Dua:** Can I have the breakup of the other income?
- Anurag Jain:** See other income, the major part of other income is 9 crores, which is due to difference in foreign exchange.
- Manoj Dua:** The last quarter 5.25 crores, is the other income, kind of breakup of that?
- Anurag Jain:** Just one moment, the other income of last quarter, there was interest income on deposit and on investments of surplus funds which was 1 crore, you are talking about last quarter or last annual?
- Manoj Dua:** This March ending?
- Anurag Jain:** Sorry, I thought you are talking the annual. If you are talking about the last quarter, out of 5.20 crores, 4.20 crores is the gain on account of difference in exchange rate.
- Manoj Dua:** Difference in exchange rate, okay, is there any dividend policy formulated regarding from the profit after tax or something like that, 15% or 20%?
- Anurag Jain:** We have been giving dividend in the last three years, if you look at what we have been giving for the last three years, it comes to around 20%.
- Manoj Dua:** I am a shareholder also and I appreciate your increase in the dividend.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal:** Good to see the company conducting a con-call and trying to be more transparent and in touch with the shareholders, I hope we continue the same. Sir one thing which I wanted to understand is like if we see the global competitive position of the industry and the company, we have two to three like Flexsys is the biggest player with a large 70 to 80% market share,

then it is followed by OCCL and the Japanese players at maybe 20,000 capacity and we are having maybe global 7 to 8% market share. So it seems that we have a good opportunity as we also have very good margins, yet if we see large three to four years, there has been sort of stagnancy, we have not been aggressive on any of the expansions or volume growth. What would be the reason, like is there a product gap between them and us or how are we positioned when we compare ourselves to them?

Anurag Jain: We were planning an expansion earlier last year, but there was a stay from the Gujarat High Court earlier, which has now been vacated. And secondly we want to grow at a steady pace, and grow with the market, so we are pacing our expansions accordingly. Thirdly, whenever we make an expansion like we did in Mundra for 20,000 tons, it takes about two years to absorb that additional capacity in the market. So these are the reasons why we are pacing ourselves.

Ayush Mittal: The case was solved I think almost a year or six or seven eight months back.

Anurag Jain: That is right.

Ayush Mittal: But the construction has not started, it will take another 6-months. Are we waiting for some particular thing or is it the normal course of line?

Anurag Jain: Basically, it is the market dynamics. We are waiting for some approvals to kick in so that the moment our capacities are in, it can start selling immediately, and we do not have to have the same gestation period that we have earlier.

Ayush Mittal: None of the approvals that are pending, that we need at Mundra, we can start construction if we want today, there are no legal problems over there as such?

Anurag Jain: No, what we are trying to do is we are trying to do some seed marketing in America so that market is primed by the time our production comes. So that is one major thing that we are doing.

Ayush Mittal: What would be the capacity utilization approximately – are we at 90-95% utilization?

Anurag Jain: This year we would expect to be running the plant at optimum capacity.

Ayush Mittal: So do we have scope for some volume growth or we do not see such kind of scenario for the coming year, like you hinted 8 to 10% growth, how much of which is the volume growth you are banking on?

Anurag Jain: What I was saying was last year we were at about 90% capacity, this year we would be at optimum capacity, that is why we are saying that there could be a growth of 8 to 10%.

- Ayush Mittal:** Between your several quarters and the yearly numbers, we many often see the fluctuation in other income, like you explained in the last question, that it is the foreign exchange, is it the part of the regular income due to hedging or is it one-time or something in this quarter?
- Anurag Jain:** It would depend on how the exchange moves. If I look at it, it is a part of my sales realization only.
- Ayush Mittal:** So it should include the other income as part of the normal operating profit?
- Anurag Jain:** I think so.
- Moderator:** Thank you. Thank you. The next question is from the line of Govindlal Gilada who is an investor. Please go ahead.
- Govindlal Gilada:** Just now you said that we are already at the optimum utilization capacity this year and our expansion I think it will take another 2-years that is right?
- Anurag Jain:** Once we decided on it, then another 18 -months after that.
- Govindlal Gilada:** So that I was tended to asking that it will take another two years to fresh capacity to come into operation, this is what I am wondering, so next year there will not be growth?
- Anurag Jain:** Current year there will be a growth that's what we are expecting 10% growth in the current year.
- Govindlal Gilada:** I am talking about next year. Current year you told me it will be at optimum capacity.
- Anurag Jain:** Next year again we are expecting some growth due to some exercises in optimization of the plant processes and all that, but these are something which will materialize in the next 5-6 months again because it is always an ongoing exercise. If you would look at our balance sheet we have always been trying to make our lines more efficient. So we are expecting some growth in the next year out of that also.
- Govindlal Gilada:** In spite of capacity constraints so this year you have got optimum utilization, you are telling 90% last year. Next year also we will have some growth?
- Anurag Jain:** Yeah, we are quite hopeful of having growth in the next year.
- Govindlal Gilada:** Around 8, 10% we hope next year also growth?
- Anurag Jain:** We are going to have some growth, let me not put numbers now, but we will have a sustained growth.

- Govindlal Gilada:** In our presentation, you projected this insoluble sulfur growth for next 5-years 2020 2,70,000 tons to 3,40,000 tons, that is 26% in absolute terms, that comes to 4-5% annualized growth I think. That is I am wondering this industry will have this kind of growth only – 4-5% volume growth?
- Anurag Jain:** This is what the way the report on various experts to say that the growth should be around 4-5%, we are a little bit more cautious on that and we assume 3.5-4% growth.
- Govindlal Gilada:** We will be within this growth or we will do better than industry growth?
- Anurag Jain:** No, we will make an expansion as well, obviously so we are expecting to do better than this.
- Govindlal Gilada:** So this 4-5% shall we assume volume growth, another 4-5% value growth, so 8-10% which will be top line growth?
- Anurag Jain:** We are talking about volume growth, as I said earlier, we never factor in realization growth.
- Govindlal Gilada:** What is the current trend of our raw material prices and finished product prices?
- Anurag Jain:** Finished products prices please I cannot discuss, I have already said that the prices are stable. As far as raw material prices are concerned, they are also stable for the last about 2 and 3-months.
- Moderator:** Ladies and Gentlemen, due to time constraint, we will be taking the last question from the line of Shashikant from Perfect Finance. Please go ahead.
- Shashikant:** I was going through annual report of 2012-13, there was a mention of two properties in Gurgaon. So is it for employees as you mentioned in previous question or for any other residential purposes?
- Anurag Jain:** Employees.
- Shashikant:** What was the cost of purchase of those two properties?
- Anurag Jain:** Sorry, I cannot recall that now. They are normal two-three bedroom flats for employees.
- Moderator:** Thank you. I now hand the conference over to the management for their closing comments.
- Anurag Jain:** Thank you very much gentlemen for joining in and taking the time out to understand our business. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategy Growth Advisors, our investor relation advisors.



Oriental Carbon & Chemicals Limited
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Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Oriental Carbon & Chemicals Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.