"Oriental Carbon & Chemicals Limited Q4FY16 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY16 Earnings Conference Call of Oriental Carbon & Chemicals Limited. This conference call may contain forward-looking statements about the company which are based on 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 the 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 & Joint Managing Director of OCCL Limited. Thank you and over to you Mr. Goenka.

Akshat Goenka: Good afternoon and a very warm welcome to everyone. Along with me I have Mr. Anurag Jain CFO and SGA our investor relations advisors. I hope you have received our results and investor presentation by now. For those who have not you can view them on our website. I am happy to share with you that the Board of Directors of the company have recommended a final dividend at 55% i.e. Rs. 5.5 per share for the financial year 2015-16 taking our total dividend for the year to Rs. 8.5 per share. The Coal Fired Boiler project was successfully commissioned on 1st April, 2016 as per our schedule. This should result in power and fuel cost savings going forward from the current financial year. At current FO rate considering two lines in Mundra the annual saving is expected to be more than Rs. 2 crores. On the capacity expansion front we are progressing as per schedule and budget. Phase I of 5500 metric tons will be commissioned by April 2017. Last year the domestic tyre industry growth has been good in spite of huge dumping of Chinese radial tyres in India. ATMA has filed an application on behalf of domestic players for initiation of antidumping investigation and imposition of duty on Chinese imports. India has already imposed anti-dumping duty on several products, to tackle cheap imports from some countries, including China. If anti-dumping comes in tyres the domestic market will get boost. The global tyre industry has been sluggish with some growth only in the US market. As per one report the European tyre market is on track for recovery on the back of revival in major markets like Germany as well as pick up in both truck and car tyres. The demand is mainly for high performance tyres therefore industry is expected to grow in the range of 3-4%. Replacement demand is also expected to improve. The US automotive after-market is also expected to grow at a CAGR of 3-4% through 2019 according to the 2016 joint channel forecast model produced jointly by the Automotive After-Market Suppliers Association and the Auto Care Association.

A quick update on our foraying into North America and China. Both markets are going as per our plans and expectations for this financial year to be ready for where our expansion picks up. We also expect to improve our capacity utilization this year vis-à-vis last year. To sum up we expect the global market to improve but it will be slow and gradual. However domestic market should be growing at a much faster pace. Your company is well placed to capitalize on the opportunities arising out of the improved market conditions. I would also like to give an update on our subsidiary Schrader Duncan Limited. As we all know it has been losing cash since we took it over in 2012. However, in April this year a major step was taken to restore the company's profitability and we have decided to discontinue the tube-valve business which was a drag on the number. Now I would like to hand over the line to Mr. Anurag Jain to update you on the operational performance of the company for the March quarter ended in FY16. Thank you.

Anurag Jain: Thank you Akshat. I will take you all through the financials of the company. Revenue for the year 2015-16 was Rs. 275 crores on a standalone basis compared to Rs. 283 crores last year. Marginally down by 2.8% mainly because of lower realization due to decrease in input cost. Q4 FY16 revenue from operation was down by 8.3% to Rs. 69 crores due to lower volume offtake in the last quarter and lower realization as compared to last year. Though the volumes have been since normalized. Revenue on consolidated basis – revenue for FY16 was Rs. 338 crores compared to Rs. 347 crores last year marginally down by 3%. EBITDA on a standalone basis earlier stood at Rs. 87 crores compared to Rs. 84 crores last year, a year on year growth of 3%. The margin improved by 429bps to 31.6% in FY16 from 29.8% last year. The improvement was on the back of operational efficiencies, lower input., power and fuel costs and increasing utilization of our existing capacities. EBITDA for Q4 FY16 stood at Rs. 20 crores as against Rs. 23 crores in Q4 FY15. The **effect** of other incomes that includes major exchange gain of Rs. 4.5 crores in previous quarter and nil in this quarter. However, EBITDA excluding other income was Rs. 19 crores against Rs. 18 crores in Q4 FY15 year on year growth of 4.8%. EBITDA on consolidated basis stood at Rs. 82 crores compared to Rs. 62 crores last year, a year-on-year growth of 19.9%, mainly because Schrader Duncan subsidy becoming EBITDA positive this year. PAT on standalone basis for FY16 is Rs. 53 crores compared to Rs. 51 crores last year, a growth of 3.3%. Net profit margin for the year is 19.3% as against 18.2% last year. For the Q4 FY16 PAT is Rs. 12 crores compared to last year of Rs. 16 crores largely because of lower other income as explained earlier. PAT on consolidated basis stood at Rs. 46 crores compared to Rs. 45 crores for the full year. On debt front our long term and short term borrowing reduced from Rs. 70 crores to Rs. 49 crores improving our debt to equity ratio from 0.29 to 0.17. With this I would like to open the floor for Q&A.

Moderator: Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. We have our first question from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: Just wanted to know few queries. #1 is what is the opportunity size for our company as the top line has not been growing for the last quarters as per the expectation? And secondly is it due to we being extra conservative in commissioning of the plant and exploring new market or sort of lack of hunger in our mindset?

Akshat Goenka: Currently we are at around 23,000 tons of capacity and we have already announced expansion plans to reach up to 35,000. So for the next 3-4 years this would be the level of opportunity that we see. As far as top line growth is consisting of two parts – one is quantity growth the other is revenue growth. Now the revenue growth has been muted because of exchange rate consideration and apart from that if you notice costs of everything have come down. So naturally the cost of our product is also coming down in line with that. But I would focus more on the bottom line and the margin as opposed to focusing on the top line. I hope that answers your question.

G Vivek: Any institutional interest other than we have a company? Recently other that HDFC placements which happens in the promoters' holders' stake?

Akshat Goenka: There is no further plan of dilution.

G Vivek: And what will be the impact on the earning per share thanks to this commissioning of the new boiler?

Akshat Goenka: In my opening remarks I mentioned that at the current FO rate the saving is approximately 2 crores a year. It is very difficult to pinpoint on earnings per share because the FO rate is going to keep fluctuating through the year.

G Vivek: And last question is about this new law being enacted by Minister of. Transportation and on overloading of trucks in India and I believe there was some development authorizing the toll collection center to catch hold of the carrying trucks and keep it aside for penalty has to be started. So any development on that front or still state governments are acting very conservative in that manner and are not allowing – still that cross-flight overloading is happening.

Anurag Jain: See there is a lot of activity happening on making of laws basis but authorities are still dragging their feet. So you will still see overloaded vehicles driving on the roads. But obviously this is a positive move for the industry, the auto industry as well as for the tyre industry and people like us. So we hope it gets implemented on the roads as quickly as possible.

G Vivek: But any penalty being imposed by the relevant authority or still the old ways it is going on?

Anurag Jain: No, penalties are being imposed somewhere and somewhere they are not being imposed, so it has not been implemented fully, it has not been implemented whole heartedly as we can see in many states.

Moderator: We have our next question from the line of Nikhil Gadh from BNP Paribas. Please go ahead.

Nikhil Gadh: Sir my question was on the competitiveness of manufacturing our insoluble sulphur, how is the competitiveness versus say the producers in China and other large manufacturers of insoluble sulphur in the world?

Anurag Jain: See as far as the other large manufacturers in the world are concerned we don't have data on their input costs which is highly guarded, however we believe that we would be competitive as far as costs are concerned with them and as far as the Chinese manufacturers are concerned we do have certain data for a few of them and we believe we are competitive there also. The problem with the Chinese manufacturers is that some of their plants are not totally environmentally compliant also. So that is an added disadvantage that they get.

Nikhil Gadh: And how is the pricing of this product? Is the pricing very transparent or you are able to charge a little higher whenever there is a scarcity of the product?

Anurag Jain: No, see this a product where you negotiate with the big tyre companies and therefore the pricing and the relationship are on a long term basis. There is no way somebody would like to encash some shortage and take advantage of the situation. But having said that, the tyre companies are also considerate about the costing and if there is an increase they will consider that and if there is a decrease we have to consider that. It is a long term relationship based on mutual trust.

Nikhil Gadh: And just one last question on the presentation page #20, you have mentioned utilization insoluble sulphur to tyre our ratio to go up, why is that happening broadly?

Anurag Jain: See if you look worldwide the utilization in developed countries of commercial tyres is more than 90% or 100%. In India it is still very low.

Nikhil Gadh: What would be the percentage in India.

Anurag Jain: The last I heard was about 25% to 30%. It is increasing though. What is happening is when the Chinese as Akshat mentioned earlier are exporting commercial tyres to India then those almost are radials and they are cheaper than the Indian tyres in some cases. So people are shifting to radial tyres even if it is Chinese tyres so once they shift to radial tyres they want to see that bump age and hopefully they want to stick to it.

Nikhil Gadh: And do you have an estimate of how many radial tyres are getting imported right now in terms of percentage of the industry and per any such figure?

Anurag Jain: No, I do not presently have an accurate figure on how many tyres are being imported.

Nikhil Gadh: So you are basically the tyre manufacturers in India are kind of guiding to you to kind of increase your production capacity because they want to make more.

Anurag Jain: See in India the demand is growing at a double-digit percentage points and we have witnessed that growth last year and we hope to witness this growth this year also. So we know that it is growing.

Nikhil Gadh: And in India who are your competitors?

Anurag Jain: There is no Indian manufacturer.

Nikhil Gadh: So you are the only one in India?

Anurag Jain: Yes.

Moderator: We have our next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir just to mention that our top-line was largely flat because there was a volume growth as well as there was a drop in realizations. So what is the volume growth for FY16 over FY15 for us?

Anurag Jain: See, we are not discussing volumes anymore as a strategy because our competitors do not disclose quantities and that gives them unfair advantage over us. What we are saying is that the reduction was mainly due to price correction on account of input costs, so our margins were maintained and maybe a little bit better than last year, actually little better than last year. So the top-line got better because of that.

Shashank Kanodia: But sir any idea on capacity utilization? So have we exceeded 90-92% utilization levels or are we witnessing -

Anurag Jain: See, we are thereabout but there is an headroom. As a said the crowd was not expected line in terms of quantity this year. So there is a headroom for the current year to grow in quantity.

Shashank Kanodia: So sir in quantity what are you targeting for FY17 in terms of volume?

Anurag Jain: As I said we do not discuss volumes but I have said that there is a headroom.

Shashank Kanodia: Okay. Sir, secondly on the realization front, so since the crude price has stabilized so have the realization for our product also stabilized now going forward?

Anurag Jain: See, let me be clear, our pricing is never volatile. As I said earlier we are not a commodity. We talked with tyre companies at the same time there is a mutual trust. So for small time fluctuations no corrections are required but if there is a long term correction in pricing as was the case this year, we have to pass on certain benefit to our customers without affecting our own profitability.

Shashank Kanodia: And sir how are the relation trends in terms of domestic exports? So is it like less in exports because of domestic players?

Anurag Jain: See the pricing is internationally certain for all customers, so even in India our competition is from imports. So let me put it this way, pricing is not a consideration to check whether we should be importing or sell in domestic market

Shashank Kanodia: And sir if we check the import-export data which is partly the government then I think you know imports are roughly in the range of 130 to 150 and exports are roughly in the range of Rs. 110-120/kg. So we are just trying to understand why would such a difference be?

Anurag Jain: No, that is because of freight mostly because we have to sell it to deliver, right?

Shashank Kanodia: Right. And sir why was there was a drop in exports this year in terms of absolute numbers, a steep drop in FY16?

Anurag Jain: We have said that the decrease in top-line is due to realization and then we will not discuss our on volume front

Shashank Kanodia: And sir lastly there were some talks about Shikoku increasing the capacity. So have anything been formed on that front as in are these supposed -

Anurag Jain: They have increased capacities.

Shashank Kanodia: So by what quantum?

Anurag Jain: All the three major companies who are on expansion street, so Shikoku increased its capacity a little bit, the main producer of insoluble sulphur Eastman increased their capacities and we are also in the process of increasing our capacities.

Shashank Kanodia: Sir last we talked was with regard to 60,000 tons is probably the capacity so what quantum Eastman has increased and what quantum Shikoku has increased the capacities if you can guide us?

Anurag Jain: See Eastman has increased their capacity by a larger chunk which is understood because we are in control of getting 5% of the market. But however whether that increase would be an actual increase or not is something that needs to be seen because we have observed that sometimes they increase their capacity. they are increasing it in Malaysia so whether they would be decreasing their capacities in their high cost stance is what remains to be seen.

Moderator: We have a next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: My question is related to the input cost. So as you mentioned that there has been a fall but could you just indicate the magnitude of that fall in sulphur and coating oil which are two of our main inputs for the year FY16?

Anurag Jain: The fall has been consistent over the year. And if you look at the cost of the raw material consumed as a percentage of turnover it has come down from 30% to 27%. So the fall in the raw material has been more than 10% and that is in line with the fall in crude and other related articles. But I now I think it is more or less stable because again of the crude situation.

Abhisar Jain: So sir basically the fall largely is in 10% to 12% range in both sulphur and coating oil and now it is stable at that price or has it gone up slightly from those levels? Means I am trying to figure out the trend for FY17?

Anurag Jain: See when I am looking at the current prices that I am getting, sulphur is stable. There has been a slight increase in the coating oil prices for the next quarter.

Abhisar Jain: Understood sir. And sir in terms of the cost on FY16 in the employee front and also on the other expenses front, I just wanted some clarity first on employee, there has been a sharp increase in the last two years on an absolute basis. So 17% increase in the overall employee cost in 2016 and it was 22% in the previous year. Similarly, in other expenses also sir though power and fuel has gone down but still our other expenses overall is still on a higher side and particularly more so in Q4. So sir can you guide for the trend there and employee cost what would be the trend going forward and also for the year?

Anurag Jain: Q4 other expenses are higher because we have made some provisions. There was a duty demand from the government which we are contesting but nevertheless, we have made provision for that in the Q4 quarter and that is why the other expenses are higher.

Abhisar Jain: Sir how much was that?

Anurag Jain: This was around in the range of Rs. 2 crores.

Abhisar Jain: Okay, that is another expense, right?

Anurag Jain: That was in other expenses as far as Q4 is concerned and obviously it reflects on the accounting year also. And if you look at it my other expenses are 57 to 57, right, they are the same.

Abhisar Jain: No sir 53 has gone to 57.6 for full year basis, FY15 to FY16 standalone.

Anurag Jain: FY15 to FY16 is 57 and FY14 to FY15 is also 57, so they are the same.

Abhisar Jain: And sir employee front, what would be the guidance there and why such a large increase?

Anurag Jain: Employee front obviously there has been certain increase on account of employee benefits provision due to the revised bonus and provident fund PPL rules. So that is one increase. The second increase is because of marginal increase in employee strength which we are showing up now because we are coming with **new phase** which is a continuous process. And obviously about 12% is the normal increase that we have given out.

Abhisar Jain: Just a clarification on the employee cost front is that is it going to be more towards 11% to 12% increase going forward?

Anurag Jain: See we are going to be with the industry. We are not going to be below the industry and when you see the employee cost you have to understand that when the new project comes in next year obviously the cost will increase but you have to look at it as a percentage of turnover then, right?

Abhisar Jain: Right sir.

Moderator: We have the next question from the line of Ayush Mittal from Mittal & Co. Please go ahead.

Ayush Mittal: Sir in continuation to a discussion on the decrease in realization can you highlight more about it like what is the quantum of the realization cut that we have seen?

Anurag Jain: No, sorry I cannot go into the exact figures as we said that anything which leads to calculation of quantity so something will shy away from.

Ayush Mittal: Because sir the issue is that if we see the numbers and last year if we see the conference call, if I look up the notes of the conference call of the last year March quarter, at that time we were expecting that we will be signing up couple of customers, we will not be able to supply adequate quantities and we will be signing up more customers and company had guided for around 10% volume growth. So this year our turnover is lesser than last year despite a 10% increase in volume that we were excepting. So if we think about that way then there must be a realization cut of more than 15% or something on that line.

Anurag Jain: So, first of all I stated in my reply to earlier question that the growth was not on expected lines. It was not 10%, it was less than 10% and that is why I said that there is headroom this year and which we are seeing right from April onwards that there has been an increase in the stake.

Ayush Mittal: We have been sitting on this capacity since last 2-3 years and with no expansion in site and all those things we are again and again not being able to deliver on the optimum utilization of the capacity. What is the reason for the same?

Anurag Jain: Let me put it this way, we are on optimum utilization of capacities even today. It is just that there is a headroom for increase in sales in preparation for getting market for our new expansion. So that is what we are preparing for. This has been a chemical plant that can be blocked to achieve more than 90% capacity and that is what we have been aiming at. As far as in reply to your earlier question where you were saying that markets are being developed, they are being developed, we are getting quantities, in fact we have starting shipping quantities and that is why I said that March onwards we are better because we have started shipping quantities into the newer geographies. And we are on track to make those markets reasonably mature by the time our first phase of expansion sets in so that we can start that expansion by selling reasonable quantities from that.

Ayush Mittal: But in earlier con-calls also we have been mentioning about these initiatives where we have tried new customers, new markets and we are more confident on the growth and utilization in the coming times but it has not been playing out that way. What I am trying to understand is, is it a market shit happening or something where we are not being able to deliver on the qualitative aspects or some issues at our end which are stopping us from doing these things?

Anurag Jain: See if you have been following our con-calls you also must have heard that developing the markets and customer is a long process. It does not happen overnight or in one year when you get in a new your market. So our aim was always to get these customers for the new 3 plant and we have been moving in that direction right from last year and we continue moving and in fact we have started getting orders from there now. So we are pretty sure that by the time the plant comes in we will be able to sell those quantities. The fact that we could not see the expected growth is also because of certain other factors. In Europe last year the demand was little bit muted. That was one of the major factors which affected our growth last year.

Ayush Mittal: What is the increase in the fixed asset at the end of this year? There is a 30-odd crore increase that we can see.

Anurag Jain: This is basically a work in process mostly for the new plant that we are expanding.

Moderator: We have our next question from the line of Mr. Amol Rao from PhilipCapital. Please go ahead.

Amol Rao: Sir I remember correctly you said that the cost for the CAPEX that we were incurring sometime back was around Rs. 150 crores. Do I have that number correct sir?

Anurag Jain: Yes, that is right. That is for two phases. The first phase would be including the Coal Fired Boiler would be around Rs. 100 crores and then the balance will be for the second phase of expansion.

Amol Rao: Sir so what you have mentioned today in the call, if I have understood correctly is that one phase of the CAPEX is over right now because the Coal Fired Boiler is starting operations now. And should we assume that FY18 is when we will see that Rs. 50 crores of CAPEX getting commissioned sir?

Anurag Jain: See the first phase does includethe Coal Boiler but it is just mentioned. The major effects are mentioned in the capacities but the date for commissioning of the plant is April 2017 and we are progressing without delays and we are very confident that we will be able to start the plant within that period. And after that plant start and stabilizes then we will work for Phase-2.

Amol Rao: So that will come subsequently to FY18 basically?

Anurag Jain: Yes.

Moderator: We have the next question from the line of Rahul Agarwal who is an individual investor. Please go ahead.

Rahul Agarwal: My first question is that you mentioned in the call that around radialisation in commercial vehicle tyres is around 30%. So that 30% is with the OEMs or overall market you are seeing i.e. OEM plus half the market combined?

Anurag Jain: Overall market.

Rahul Agarwal: Okay because I was talking with people in other parts of this chain the commercial vehicle tyres, so they were mentioning somewhere like 6% to 7%?

Anurag Jain: See we also take the figures from the tyre companies' websites. We do not have independent research to do this and it based on the feedback from the association in tyre industry that we are telling you these figures. This also of course includes imports from China, so whether they are including that figure or not I do not know. As far as Indian tyre companies are concerned most of their capacities or on bias tyre as far as the commercial vehicle segment is concerned. They have lesser capacities on the radial tyre front. However, because of this I think that ratio is set to change in the coming years where they will have to put in more capacities for the radial tyres as far as the truck tyres are concerned.

Rahul Agarwal: So what is the ratio of sulphur that goes into a bias tyre versus that goes into a radial tyre?

Anurag Jain: It is nearly double than what goes into a bias tyre.

Rahul Agarwal: And what about the grade of sulphur? Is it a higher valued sulphur of single grade?

Anurag Jain: No, the grades would be the same. We have different grades but that is the grades that we have which are based on the requirement and the process parameters of the tyre companies. But once they buy the sulphur whether it is bias tyre or radial tyre, the quality of the insoluble sulphur is the same.

Rahul Agarwal: And one more question what do you think would be the impact of dedicated freight corridor on usage of trucks for transporting goods over long distances because that impacts the consumption of tyres.

Anurag Jain: I think that it should not have a major impact. In the next 7 to 10 years we are still going to see a double-digit growth. If that was not the case and the radial tyres would start coming in, then the growth would have been much higher. See you have to understand that in China the consumption of insolvable sulphur is in the range of 50,000 tons per annum. In US it is in the range of 35,000 to 40,000 tons per annum while in India it is only 13,000 tonnes per annum. So that is the gap that we are looking at. And we do feel that in spite of the freight corridor or because of it this growth rate should sustain for the coming 7-8 years at least.

Rahul Agarwal: But sir in China consumption could be high also because we are exporting a lot of tyres, we are exporting lot of automobiles and then overall domestic consumption is also high whereas that is not the case in India.

Anurag Jain: I know that would have been the follow-up question, that is why I put the example of USA also.

Rahul Agarwal: Okay, but in US also haulage over long distances is much more than it happens in India.

Anurag Jain: Yes, that is right but I think there is a lot of scope and anyway you still feed the freight corridor. So I do not think that is going to be any **impact** on the demand.

Rahul Agarwal: Actually I raised the question on freight corridor because recently there was a tunnel opened in Switzerland and because of which they say that over a million of trucks which are transporting goods across this hill, they will now go out of business.

Anurag Jain: India is still very short of trucks and roads. So it is not a matured market yet, so it is not going to impact the next 6-7 years I would say.

Moderator: We have the next question from the line of Govind Lal from Gilada. Please go ahead.

Govind Lal: I have got one question sir. This other income year-on-year and quarter-on-quarter it has come down substantially.

Anurag Jain: The reason that the other income has come down is because of FOREX. So there was a FOREX gain last year which is not that much this year so that is why it has come down.

Moderator: We have the next question from the line of Nikhil Gadh from BNP Paribas. Please go ahead.

Nikhil Gadh: Sir just a follow-up question, in terms of asset turns and working capital cycle if you can just tell me I mean what is the expected asset turn and working capital cycle?

Anurag Jain: See the working capital cycle and asset turnover ratio would remain the same as it is. So we do not see any major changes going forward.

Moderator: We have the next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir just a follow-up, if you can just talk on the Schrader Duncan a little bit more in terms of the step that you have taken, so how much would be the impact on the top-line and how much EBITDA improvement can we expect going forward in FY17 in that subsidiary?

Akshat Goenka: In this past year approximately 50% of the turnover was from this line that we closed down, anywhere from 40% to 50%. Some of that will be offset by the growth that will come in from the existing division. As far as EBITDA is concerned it will naturally get a big boost because this unit that we shut down was a drag on EBITDA. It is very difficult to quantify at this stage since we are still restructuring it and seeing what fixed cost will remain, what will go. So I think things will play out over this year.

Abhisar Jain: And just a clarification there that we will not have to take any more write-down or any other costs in the coming quarters related to this, right?

Akshat Goenka: So there are two aspects, one is write-down on fixed assets and one is a one-time settlement cost. Whatever we think is the realizable value based on that we have already provided the write-down cost. So any plus-minus to that should not be too much but whatever it is will come in. And there will be one one-time settlement cost with the workers, that is still yet to come in.

Moderator: We have the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir in your presentation you have guided initially also that for CAPEX you will be maintaining your debt to equity ratio of 2:1 for spending Rs. 150 crores for new 11,000 tons of line. But if you see your balance sheet you have already spent Rs. 50 odd crores largely from internal accruals. So is it fair to assume that your absolute debt will not go up in the next two years?

Anurag Jain: See now because whatever we needed to spend from internal accruals we have already spent that, so whatever additional expenditure would come it will come from term loans. But debt should not go up from the level it was last year, but it would definitely go up from the level that we have closed this year.

Shashank Kanodia: But sir given that you are generating almost 50 odd crores each year as a cash flow from operations and this is you intend to spend per year, so then also your term loans will be increased?

Anurag Jain: Yes, because we are keen to save the cash for flexibility.

Shashank Kanodia: Okay and sir lastly on the margins front, so is this 28-30% margins sustainable?

Anurag Jain: We have always maintained that on a long term basis we would say (+25%) is a good margin.

Shashank Kanodia: And given that your new capacity is going to be coming brownfield expansions, so incrementally the margins should be better in that domain or it would be at the same level?

Anurag Jain: See if you look at the cost, the efficiencies in the cost, the margin should be better because the fixed cost will not increase in the same proportion.

Moderator: We have the next question from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: Yes, so this was certainly affecting the response of our marketing style in US market, so far it has been a monopoly of Eastman Chemicals. How has been the response to us in the initial style of business?

Anurag Jain: The response has been quite encouraging and we are quite enthused about our US market.

Shashank Kanodia: And what is the opportunity size once again sir?

Anurag Jain: The total US market would be around (+35,000) tons per annum.

Shashank Kanodia: And overall opportunity size for our products sir?

Anurag Jain: See I am expanding by about 5000-5500 tons out of which my domestic market is going to take a chunk of it. Rest I will to sell. It is not a big issue.

Moderator: We have the next question from the line of Rahul Agarwal, individual investor. Please go ahead.

Rahul Agarwal: Actually one more question I have, how sustainable are our margins and why are they so sustainable?

Anurag Jain: The margins are as I have pointed out earlier, we look at the long term margins, sustainable margins at 25% and they are sustainable because the capital cost is high in this business and the cost of getting into the business is high. So we believe that for any player in this business margin of less than 25% is not a viable margin. And since there are only 3 big players, we believe that they would be sensible enough to keep their businesses at a level where it is sustainable.

Rahul Agarwal: And sir is there no onslaught of smaller players from let us say China who dumped these products in the market? Is there no scope for dumping of these products?

Anurag Jain: This is not a product which sells in the open market and somebody goes and buys it. There is a lot of approval process which goes and most of it is consumed by the tyre companies. So the only way they can dump the product is by getting approvals from the tyre companies. Once their products are approved by the tyre company obviously then they are free to sell to those tyre companies.

Moderator: Ladies & gentlemen due to time constraint that was the last question. I would now like to hand the floor over to Mr. Akshat Goenka 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 get in touch with me, Mr. Anurag Jain or SGA – our investor relations advisors. Thank you once again and see you next time.

Moderator: Thank you very much sir. Ladies & gentlemen on behalf of Oriental Carbon & Chemicals Limited, that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.