



“Oriental Carbon and Chemicals Limited Q4 FY24 Earnings Conference Call”

May 24, 2024

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MANAGEMENT:

1. MR. AKSHAT GOENKA – PROMOTER AND JOINT MANAGING DIRECTOR – ORIENTAL CARBON & CHEMICALS LIMITED
2. MR. ANURAG JAIN – CHIEF FINANCIAL OFFICER – ORIENTAL CARBON & CHEMICALS LIMITED



Oriental Carbon and Chemicals Limited
May 24, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY24 Earnings Conference Call of Oriental Carbon and 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 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 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. Akshat Goenka – Promoter and Joint Managing Director of Oriental Carbon and Chemicals Limited. Thank you and over to you, sir.

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 and investor presentation for the quarter and full year ended 31st March 2024 on the Stock Exchanges and Company Website. Hope each one of you had a chance to go through the same.

During the quarter gone by, the Company has witnessed revenue growth of 4% and PAT growth of 15% despite several factors such as global chemical inventory destocking leading to depressed realizations and a slowdown in the global chemical space. Revenue for FY24 was lower due to a reduction in sales price on account of a reduction in input and freight costs for insoluble sulphur and acid respectively. However, the Company was able to maintain its margin. The Company is witnessing a challenging global environment characterized by elevated inflation, lower demand and realizations of chemicals globally. The demand in Europe, which is the second largest market for our Company, has been sluggish due to the macroeconomic and geopolitical environment including the various conflicts. Excess of production capacities over demand is resulting in pressure on prices and margins globally. This is expected to continue until the balance is reached between capacity and demand. Due to imports in India being made at very low prices, the Company has applied to the DGTR for the recommendation of anti-dumping duty on the import of insoluble sulphur from China and Japan.

We are making the Company stronger by prudent capital allocation as well as early repayments of debt. Last year debt was reduced and in April, further debt was paid back. As on date, our non-current long term debt is Rs. 33 crores and the current short-term borrowings including current maturity is Rs. 52 crores. Our liquid cash and investments is Rs. 63 crores. The position of the balance sheet is healthy. In the near future, CAPEX will be restricted to maintenance and payback ones.



I am also happy to share that we have received approval from the honorable NCLT for the demerger scheme. The order has been appealed in NCLAT on the limited point of appointed date. The case has been admitted and we expect it to conclude soon. This milestone unlocks significant value within both the demerged and resulting companies aligning with the unique risk return profiles and cash flows. It enhances our flexibility in accessing capital and attracting partners and investors tailored to each business segment. Additionally, this move enables a sharper focus on individual growth strategies and expansion opportunities ensuring optimized performance and value creation for our stakeholders.

To conclude, I would like to say that we have experienced comparable industry downturns on multiple occasions and our Company is well positioned to handle this brief phase because of its balance sheet hygiene, strengthened competitive structure, ESG commitments and customer approvals. The Company would be among the fastest to improve capacity utilization and capital efficiency as soon as the demand recovery results and orders coming in, therefore boosting value for its stakeholders.

With this, 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 now take you all through the standalone financials of the Company.

As far as Q4 FY24 is concerned, total income stood at Rs. 108 crores and grew by 4% year-on-year. EBITDA stood at Rs. 27 crores, a growth of 7% year-on-year. EBITDA margins stood at 24.8% compared to 24.1% same time last year. Profit after tax stood at Rs. 13 crores with the growth of 15% year-on-year. PAT margin stood at 12.3% versus 11.1% during Q4 FY23.

Now to give you a highlight on the year ended FY24, total income stood at Rs. 401 crores with a growth of 14% year-on-year. EBITDA stood at Rs. 97 crores at same level as previous year. EBITDA margins were 24.2% against 21% last year. Profit after tax stood at Rs. 43 crores, down 2% over last year.

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 Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan:

Sir, when you look your performances in this quarter as compared to last quarter. So, your topline EBITDA, PAT, everything has improved. So, Sir, what has changed on sequential basis? So, whether it is volumes which have gone up or realizations or what has actually changed on quarter-on-quarter basis?



- Anurag Jain:** So, as far as this quarter is concerned, the major change has come in volumes with respect to previous year. So, the volume that we moved this quarter was more and that is reflected in our performance.
- Aditya Khetan:** So, sir, on to the volume side, so that Phase-1 capacity of 5500 tons at what utilization level that is operating, just a ballpark figure if you can help us understand?
- Anurag Jain:** We do not look at capacity utilization on a line wise basis. It is the total capacity utilization that we look at. Currently, the capacity utilization would be around 70%.
- Aditya Khetan:** So, for the month of January, February and March, sir, we are witnessing that the export prices of insoluble sulphur have taken a dip, so will this be reflected in in the coming quarters or we have taken that into this quarter numbers?
- Anurag Jain:** So, in this quarter, obviously in some sales, the dip is not there because it is related to other earlier contracts. In some sales, the dip is there, but in the coming quarter, the whole impact will be there.
- Aditya Khetan:** So, on to the anti-dumping duty, is there any update like you had applied for ADD on China and Japan. Earlier sir, we knew that so that the imports were primarily happening from flexsys only, so that China and Japan have now started to dump excess capacity in India?
- Anurag Jain:** That is right. They have excess capacity which they are dumping in India and therefore there is an impact on pricing and that is what has forced us to move for anti-dumping duty against them.
- Akshat Goenka:** In fact, even **flexsys** has started dumping recently. And once it shows up in the data and gets proven, we will move against **flexsys** also.
- Aditya Khetan:** Sir, we are expecting this to normalize, so demand supply globally and all this thing by which quarter or year we can say so things will normalize?
- Akshat Goenka:** Currently the gap in demand and supply globally is quite significant. And the growth in demand is still projected to be in the range of 3% to 4%. So, normalization is not going to happen in the next at least 2 years.
- Aditya Khetan:** And any update on to the sulphur prices, sulphur and coating oil prices, so where are they moving right now?
- Akshat Goenka:** They are more or less stable right now, so sulphur is concerned, it is stable with the negative outlook and as far as oil is concerned, that is also stable. So, currently both are in the stable phase.



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- Aditya Khetan:** So, just one last question. So, that Phase-2 capacity expansion, any plans on that? So, we'll be looking to restart that?
- Akshat Goenka:** So, that will depend on the capacity utilization once it crosses the threshold of say 85% or 90%, then we will start the process of looking for expansion of Phase-2.
- Moderator:** Thank you. The next question is from the line of Dhruv Mukesh Bajaj from Smart Sync Investment Advisory Services. Please go ahead.
- Dhruv Mukesh Bajaj:** I wanted to understand more about the anti-dumping duty because in recent times Finance Ministry actually blocking approvals of anti-dumping duty despite the other ministry giving approvals. So, how big has been the impact of these imports on our realizations in domestic market and is that existing capacity sufficient enough to meet the domestic demands given there are no major players in the domestic industry to cater to the demand, so now imports are a natural outcome, right or am I missing something?
- Akshat Goenka:** Our capacity is far more than the total domestic demand. So, let me give you a ballpark figure. The total domestic demand will be between 20,000 to 22,000 tons per annum. Our capacity is 39,000 tons per annum. And secondly, when we talk about anti-dumping duty, it is not about blocking imports, it's about dumping of material by exporters. So, it's not about blocking imports altogether.
- Dhruv Mukesh Bajaj:** And since our investment Company will now house Duncan Engineering, so can you please provide us updates regarding the operations as based on my reading you have been successful in turning around the operations in the last few years by selling non profitable businesses among others. However, the scale of operations has remained stagnant at Rs. 60 to Rs. 70 crores in the past decade. So, how do we plan on scaling this up? And some information about the new developments or any tailwind surrounding the business will be really helpful.
- Akshat Goenka:** So, there is work happening on various things and new product development and the prospects are bright product engineering.
- Dhruv Mukesh Bajaj:** And sir post demerger, how are you planning to deal with cash flow generation, as our borrowing currently stands at only Rs. 50 crores versus an annual cash flow generation of around Rs. 100 crores. And given the lack of investment of positive in the core business in the near term, since we are operating at around 70% utilizations. So, can you please guide us regarding your strategy going forward if possible?
- Akshat Goenka:** We will do whatever is in the best interest of the shareholders.
- Moderator:** Thank you. The next question is from the line of Ayush Agarwal from MAPL Value Investing Fund. Please go ahead.



- Ayush Agarwal:** Sir, GTO prices they have moved up from \$1.6 to \$2.5 because of the issue in Brazil. So, any comment on that and how will that impact us?
- Anurag Jain:** Which oil prices have moved up?
- Ayush Agarwal:** GTO prices
- Anurag Jain:** No, this has no impact on the oil that we are buying.
- Moderator:** Thank you. The next question is from the line of Karan Mehra from Mehta Investment. Please go ahead.
- Karan Mehra:** Sir, a couple of questions from my end. If you can throw some light like when can we expect the demand supply scenario in Europe to normalize, if you can throw some light here?
- Anurag Jain:** It's very difficult to say how Europe will involve from where it is because there have been reductions in the production there based on the economic slowdown, based on the new economic reality as well as the geopolitical situation. How much of it comes back and when, it's very difficult to hazard that guess. But what we can see from the current market demand is that whatever they are buying is as more or less stabilized, it's not going down further, that much we can say.
- Karan Mehra:** And we have seen good improvement in our margin, so congratulations on that front. But if you can help us understand like what has been the major reasons for this margin improvement and what would be the sustainable margin going ahead?
- Anurag Jain:** So, if you look at it from per ton basis, there has not been a significant increase in margin. There was a slight increase in margin because of the raw material costs. But going forward because of the reason of capacities and dumping, we do see margins to be in a little bit of pressure as we have indicated earlier also. So, in the current year, the margin per ton of product we are expecting to be lower than it was in '23-24.
- Moderator:** Thank you. The next question is from the line of Rohit from SK Securities. Please go ahead.
- Rohit:** So, my first question is our peer, China Sunshine, has doubled insoluble sulphur manufacturing capacity during FY22 and has announced plans for further capital expenditures? How much of dip in realizations due to their capacity expansion?
- Anurag Jain:** As far as China is concerned, our belief is that the current price that they are selling at is already at a level which is very low. And until something happens to the raw material, the lowest price that they are selling at today, they do not have much more leeway to reduce it further.
- Rohit:** So, you are saying that there will not be a much impact of this?



- Akshat Goenka:** Yes. Because there are different levels of pricing, but the lowest price that we see them selling at globally is so low that we do not see much leeway of further reduction in that.
- Rohit:** And my second question is how do you see the demand supply dynamics for insoluble Sulphur in next 2-3 years?
- Akshat Goenka:** The gap between capacities if you take the whole of China in the capacity and the demand is significant and I do not see that being bridged in the next 3 years if we were to go by generally belief figure of growth in demand of 3% to 4%. So, the next 2-3 years in terms of pricing are going to be tough.
- Moderator:** Thank you. The next question is from the line of Saravanan, an individual investor. Please go ahead.
- Saravanan:** The first question is on the North American market expansion, right? So, like 3-4 quarters back, so we had a road map on the NA market expansion on adding few OEMs. So, just want to get an update on that and also like so since the demand is sort of again like muted, right due to the oversupply in the market. So, in a typical case, like, how does the evolution happen in terms of the addressable market that's available today, keeping the Europe and North American market? So, that's question one. And question two is primarily on the buyback front. So, earlier I think the participant asked a question about like Rs. 100 crores of operating cash flows that are available, right? So, now with the dividend and the free cash flows with limited investment opportunities, is there a possibility to reduce the share capital by 3%? And maybe I think would love to get your thoughts on that?
- Anurag Jain:** So, to answer your first question, yes, our plans of America are in place. Unfortunately, last year we could not get the market in America that we wanted because of various reasons. Of course one being that the producer in America is in a dominant position there. And therefore, we could not get the market that we wanted, but our resolve is firm and as far as growth is concerned, obviously we intend to take the normal growth of 3% to 4% globally, but our growth should be more than that because we are sitting in India where the growth is expected to be anywhere between 8% to 10% for insoluble sulphur. So, that way our growth is going to be more and yes, we have opportunities also in untapped geographies or manufacturers, which we intend to tap. So, in short, our growth should be more than the growth of the market globally. As far as your second question, slight suggestion is concerned, as Mr. Akshat Goenka has already pointed out, that at the appropriate time we will take the decision that is best for the investors and stakeholders.
- Saravanan:** And the last question is mainly on the addressable market, right? Like which I think you partly answered like so today our domestic market share is like close to 60% and the remaining is like sort of taken by other unorganized players, right? So, from a global market sales standpoint again like we are at 10% today. Now with oversupply like hanging in the ecosystem like how many



low hanging fruits can be captured. Are there any other markets outside, obviously US is one major market, but are there any other markets that are again are poaching grounds that we are exploring today?

Anurag Jain: As I said, markets can be divided into two broad segments. One is geographical and one is the big tier customers, right? And they have different plants in different locations. So, when we talk about or when we look for expanding our footprint, it's a mixture of both. We look at it from a geographical point of view as well as from the point of view of the global manufacturers, where the addressable market can be increased by us. So, it's going to be a mixture of these two things which we feel will help us fulfill our growth targets.

Saravanan: So, private equity and venture investing is sort of muted today, right? So, now are you seeing good opportunities to deploy more capital on the private market standpoint?

Akshat Goenka: Yes, we keep doing that. We keep deploying capital year-on-year and finding opportunities and we'll continue to do that.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, when we say that the next 2-3 years are going to be under pressure in terms of pricing as well as there is an over capacity. So, till what level can you see our margins going down or the margin pressure on our books from a 2-3-year perspective?

Akshat Goenka: Currently, we are witnessing about 4% to 5% reduction in margins from last year. That is our anticipation in terms of per ton basis, not on EBITDA levels. And we feel that this is something which could be sustainable. We do not feel that we might have to go lower than that. One of the reasons, of course, is that we have applied for anti-dumping. And if that might realize, I think we will be able to sustain on that business.

Madhur Rathi: What is our current total margin that we yield?

Akshat Goenka: Well, that is not something that I am ready to share.

Madhur Rathi: Sir and on the general engineering segment of our books, so what is the outlook for the same for the next 2 to 3 years when they'll get demerged into a different entity?

Akshat Goenka: I already mentioned earlier that we have a positive outlook and we expect it to grow.

Madhur Rathi: If you could give us a little bit brief because like what kind of products are we entering into new kind of process equipment or something because it will be better to get an understanding from your side?



- Akshat Goenka:** I suggest that you join the ATM that will be there for Duncan Engineering and read the annual report and all your questions regarding Duncan will be answered in the AGM.
- Moderator:** Thank you. The next question is from the line of Sarbhav Mittal, an individual investor. Please go ahead.
- Sarbhav Mittal:** Sir, my question is regarding the product. How is the product supplied to one customer is different from the product supplied to the other customers?
- Akshat Goenka:** No, that's not true. We supply similar products to all customers.
- Sarbhav Mittal:** And what is the value addition in that product say in the past annual reports I have read around 22% of the Company's sales come from value-added product?
- Akshat Goenka:** Yes, but now all products are the same. That is in the past where there were different products. But now the value added products will become the standard.
- Sarbhav Mittal:** In the last concall, you said that the tyre company can give you the business within 6 months or if they want you and if they don't want you, they won't give you the business even for the 5 years. So, what are the characteristics that the tyre companies are looking for in their suppliers?
- Akshat Goenka:** Quality, cost, reliability.
- Sarbhav Mittal:** My next question is, sir, why there are only three or four players in the insoluble sulphur, which are globally recognized?
- Anurag Jain:** You should ask that to the tyre companies.
- Moderator:** Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.
- Aditya Khetan:** So, it's possible to share the sulphuric acid revenues for this quarter and for full year and what is the utilization levels currently we are operating at?
- Akshat Goenka:** So, to answer your last question first, we are currently operating at full capacity utilization. As far as revenues are concerned, the realization per metric ton sulphuric acid has come down by 50% and that is because the average price of raw material which is sulphur has come down by 50% from last year and that is where the price has come down for sulphuric acid as well, contribution has also come down.
- Aditya Khetan:** On to the European market, as I mentioned that so there are still some ongoing pressures which is leading to subdued volume growth. Sir, any idea on the total market size in Europe and what is our market penetration over there?



- Akshat Goenka:** Are you talking about Europe?
- Aditya Khetan:** Yes, Sir, Europe.
- Akshat Goenka:** I will have to come back on the total market sizing. I don't have that figure available readily with me.
- Aditya Khetan:** Sir, you're mentioning that, so you're witnessing some margin pressure of about 4% to 5% reduction in per ton basis. But Sir, you also mentioned that the China prices have already like bottomed out, so they are so near to bottom levels and there is no further scope wherein like so they can cut the prices and if that is not factored in your current numbers, we are anticipating that will come in this fiscal?
- Anurag Jain:** Yes because some impact has come in the last quarter and the full impact we are anticipating. And as Akshat has pointed out, the question was about China and now Japan has also reduced prices. So, that is the issue.
- Aditya Khetan:** Any new capacities so which are coming up. So, we believe that Shikoku Chemical capacities were set to come by this calendar year. Any update sir onto the capacity addition side globally?
- Anurag Jain:** We don't have any other information of capacity addition other than the one that you just mentioned.
- Moderator:** Thank you. The next question is from the line of Dhruv Mukesh Bajaj from Smart Sync Investment Advisors. Please go ahead.
- Dhruv Mukesh Bajaj:** Just one question that based on my understanding, the majority of our revenues in insoluble sulphur space come from sales to tyre companies. However, I was trying to see the application in other area so I could see this particular product is also using wires as well as footwear. So, are we excluding options to increase sales in other applications or what's the plan?
- Anurag Jain:** So, the consumption of insoluble sulphur in these application is very, very less and there are people who use our product in this application as well, but they are mostly buying from our distributors and not directly from us because the quantity is very less.
- Dhruv Mukesh Bajaj:** And Sir, will this appeal regarding change in appointed date with NCLT regarding the demerger process will have any bearing on the demerger process or do we expect that to complete in a timely manner only? By when can we expect the completion?
- Anurag Jain:** No, since the scheme has already been approved, the only bearing it will have will be on the appointed date. That's all. So, we have asked them to keep the appointed date as per the scheme. That is the appointed date should be the effective date. So, the bearing will only be to the extent of the appointed date.



- Dhruv Mukesh Bajaj:** And sir pardon my ignorance, but what effect will you have by changing the appointed date like I was unable to understand the reason there.
- Akshat Goenka:** See that is an internal matter, we would not like to get into it.
- Moderator:** Thank you. The next question is from the line of Akshay Shah from Mehta Investments. Please go ahead.
- Akshay Shah:** I have two major questions regarding the North American market. One is, can you share a few challenges that you are facing in getting customer approvals from North America, this one and the 2nd is when can we expect to overcome these challenges and penetrate the North American market?
- Anurag Jain:** So, the challenges are not on customer approval side because we have been approved by most of the players that we have targeted there. The challenge is more commercial as I pointed out in a reply to an earlier question, the dominant supplier as a production base in US, and therefore they are able to position their product in such a manner that it becomes difficult for some companies to get an external supplier. So, these are the challenges that we are facing. But otherwise as far as approval is concerned, product is approved in most of the targeted tyre companies.
- Akshay Shah:** And also by when can we expect to penetrate the North American market, if you have any timelines?
- Anurag Jain:** Yes. So, as I said, we have entered the North American market and we are supplying to many customers there. Though the quantities are not to the level that we would have desired them to be, but the penetration is there.
- Moderator:** Thank you. As that was the last question for the day, I now hand the conference over to the management for closing comments. Over to you, sir.
- Akshat Goenka:** I'd like to thank everyone for being part of this call. We hope we have answered your questions. If you need more information, please feel free to contact us or SGA, our Investor Relation Advisors. Thank you.
- Moderator:** Thank you. On behalf of Oriental Carbon and Chemicals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.