"PCBL Limited
Q1 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to PCBL Limited Q1 FY '25 Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listened-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 star, then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Please go ahead, sir.

Sanjesh Jain: Thanks, Aditya. Good afternoon, everyone. Thank you for joining on the PCBL Limited Q1 FY '25 Results Conference Call. We have PCBL management represented by Mr. Kaushik Roy, Managing Director; Mr. Raj Gupta, CFO, Mr. Saket Sah, Group Head, Investor Relations and ESG; Mr. Pankaj Kedia, Vice President, Investor Relations.

I would like to invite Mr. Kaushik Roy to initiate the call with his opening remarks. Post which, we will have a Q&A session. Over to you, sir.

Kaushik Roy: Thank you so much. A very good afternoon to each one of you, and a very warm welcome as well. I will first quickly take you through the company update, and then open it for question and answer. I'll give you some details first on the Q1 performance. So I'm happy to inform you that PCBL reported its best-ever operational and financial performance during Q1 FY '25.

During this quarter, our consolidated sales volume from Carbon Black segment was highest ever at 1.54 lakh tons, which is up by about 25% on a year-on-year basis. While consolidated revenue from operations increased by 59% to INR2,144 crores. And this is due to better realization, sales volumes and consolidation of Aquapharm business. Consolidated EBITDA grew by around 72% year-on-year to INR369 crores. PBT stood at INR164 crores while PAT increased by 8% year-on-year to INR118 crores.

Consolidated EBITDA per metric ton in Carbon Black segment stood at INR20,861 as against an average of INR20,018 per metric ton during FY '24. During this quarter, PCBL Tamil Nadu achieved a sales volume of 28,228 tons. The state-of-the-art plant in Chennai has received approvals from all major tyre manufacturers in India and locked the capex utilization of 85% plus during the quarter.

Of the total Carbon Black sales volume, domestic sales volume stood at 90,438 metric ton, while international sales volume stood at 63,480 tons. Export sales volume registered a strong growth on year-on-year basis of 56% in Q1 FY '25.

Now moving on to the segmental performance. Tyre accounted for 87,945 tons. Performance chemicals reported sales volume of 50,302 tons. And we also achieved specialty sales volume of 15,671 tons, which is again the highest ever in our history. And we continue to expand our product portfolio and customer base.

We also achieved highest ever power generation and sales volume during the quarter. Power generation increased by 24% from 156 million units in Q1 FY '24 to 194 million units during the quarter with external sales volume of 116 million units as against 98 million units in Q1 FY '24. PCBL average realization stood at INR4.16 per kilowatt hour.

Now coming to Aquapharm Chemicals. Aquapharm business is witnessing a steady improvement in performance. Post the completion of acquisition, we have been working on an integration process. Various efficiency improvement and cost optimization measures have been undertaken, and we expect this to yield positive results going forward. We are adding capacity for various high-margin products and this will help us to improve the margin profile further.

Currently, Aquapharm has approximately 24% of global market share, excluding China, in Phosphonate, we plan to further increase our share with additional capacity and value-added products in the segment. In oil and gas chemicals, Aquapharm has less than 1% of global share, and we are working on a strategy to increase our customer base, presence in multiple new geographies, increasing capacity and supply chain capabilities.

Green chelates, which is another exciting segment, where we see rapid growth opportunity. With the push forward more sustainable and green chelates, there is growing trend for substitution of older chelating agent like STPP in USA and Europe, China and India as well. We are, therefore, working on expanding the portfolio in green chelates. We are already making MGDA and GLDA liquid and are now working on MGDA granules.

A number of new products are under development stage and few are going through the approval process with large global MNC clients. In Q1 FY '25, revenue of Aquapharm stood at INR359 crores and operational EBITDA at INR55 crores. The quarterly sales volume was 24,402 tons. The capacity utilization witnessed a steep improvement and stood at around 75% during Q1 FY '25.

Your company is amid an aggressive capacity expansion program across different segments. And is working on strengthening supply chain, product mix and customer reach. The long-term prospect of all business segments look very positive and we believe there would be adequate business potential to sustain the growth momentum.

With the ban on import of Carbon Black from Russia into Europe, the European tyre manufacturers are expected to increase sourcing from India going forward. PCBL is expecting significant growth in international sales volume in the next few years.

At PCBL research and innovation are important drivers of both technical advancement and business expansion. In recent years, the company has intensified its commitment to research by making substantial investments in infrastructure, human capital and streamline processes. These investments have significantly bolstered PCBL's capabilities in new product development, customization, application and process efficiency.

Recently, we received a patent for Hybrid Carbon Black grade comprising graphene to improve performance of rubber compounds. This would lead to improvement of fuel efficiency, tyre durability and load bearing capacity.

Our current Carbon Black capacity stands at 7,70,000 tons annually. Currently, specialty line of 20,000 tons and 90,000 tons of Carbon Black lines are under implementation. And very soon, we will start working on larger capacity.

We are expediting pace of work of project size to fast-track commissioning. Post commissioning of the above line, our capacity, our CB capacity would reach 8,80,000 tons. This will include specialty capacity of 1,12,000 tons. While the power capacity would be 134 megawatt. This would help us to increase our global market share.

The Aquapharm capital stood at all at 1,30,000 tons, and we have embarked on the capacity expansion program of 38,000 tons in next 6 to 8 months. The company is in multiyear growth momentum. The current annual revenue run rate has already crossed US$1 billion mark and is expected to accelerate further in the ensuing quarters with the capacity ramp-up across different business segments.

And with this, I conclude and open the floor for your questions. Thank you so much, ladies and gentlemen.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Aman Soni from Nvest Analytics Advisory LLP.

Aman Soni: Congrats on good set of numbers. Could you please provide the revenue growth guidance for FY '25? Additionally, can you elaborate on whether the company expects to sustain its EBITDA margin or if there are anticipated changes that could impact margin levels moving forward?

Raj Gupta: Aman, I would give you a little long-term growth guidance. We are confident that the business, the Carbon Black business can deliver roughly 11.5%-12% CAGR growth I'm talking in terms of volume growth over the next four to five years. And in terms of whether we are able to maintain our margins, there are lot of initiatives that we have taken on yield improvement side, on product mix side.

And also with additional capacity coming up, the operating leverage will also play favourably for the company. With that, our operating margins or our EBITDA per ton would keep on increasing between now and going forward. The next five years, I think we have a strong possibility of EBITDA going up by INR4,500- 5,000 per ton. That's how we see it.

Aman Soni: Please outline the company's capital expenditure plans for the medium term?

Raj Gupta: Long-term capital expenditure, we need to add about roughly 400,000 tons of Carbon Black capacity. And we will also be kind of doubling Aquapharm capacity across geographies. So we have two facilities, two primary facilities. India, we have multiple facility, but India considering as one geography and then U.S. Currently, they have about 130,000 tons. Next six to eight months' time, 38,000 tons capacity is going to come up. And during the next 4-4.5 years, we are going to add another 100,000 tons of capacity.

Aquapharm capacity is also going to get double in the next five years' time. Additionally, we also created a joint venture company in collaboration with the Australian technology company. And we are already in final stage of closing the agreement. And then we will immediately proceed with implementation of a pilot plant. And we expect the first full-fledged plant to be ready, up and running in the next 1.5 to 2 years' time. And that is further going to add to the top line and bottom line at the consolidated level.

Aman Soni: And the last question is, please detail the strategies the company is implementing to achieve the ambitious goal of increasing the business by 5x?

Raj Gupta: Aman, I didn't get your question correct? What exactly is your question?

Aman Soni: Please detail the strategies the company is implementing to achieve the ambitious goal of increasing the business by 5x?

Raj Gupta: Yes. So Aman, you work out on this number, this 11-12% volume growth in Carbon Black segment, doubling our capacity in Aquapharm business and then additionally, there is this battery chemical company coming into picture. I mean, there is a very high possibility of our getting a fivefold jump in bottom line in next five years.

Moderator: Our next question is from the line of Aditya Khetan from SMIFS Institutional Equities.

Aditya Khetan: Just a couple of questions. Sir, first question is on to the Carbon Black. Sir, I think the last two quarters, we have stated that since this sort of spreads in Carbon Black around INR20, INR20.5 per kilo in some sort that would be higher end only. So sir, like are we continue building in such higher spreads or we see in the near term that this could also come under pressure? And continuing on this part on to the Aquapharm, this quarter, we had reported around 22,000 tons at the EBITDA spread for Aquapharm. So sir, you can say it is a mid-cycle or at the top end of the -- into the cycle part?

Raj Gupta: Aditya, to answer your first question, the change in our margins or the improvement in our margins is on account of a lot of efficiency measures that we took in last 7 to 10 years. And while still, if you go by segment, the specialty volume might just look about 10% of the total volume, but there are lot of grades that we launched even in the tyre portfolio, which carry very high margin, almost comparable with the specialty portfolio. But we treat them as part of our tyre portfolio. So, in last 2, 3 years, if you track all the filings that we have done in recent past, those are all composites or different grades which are not common grades, which provide superior quality to tyre. And therefore, they carry very high margin as compared to the basic grades which gets into tyre.

So even the margins in the tyre portfolio has improved, and is further improving because the product mix itself is changing within tyre segment also. Not only we believe that these margins are sustainable, we are confident that we can further increase this margins. So the same kind of movement which has happened in our margins in last five years, we are confident that we can deliver further improvement to the same extent in the next five years.

Coming to Aquapharm. Aquapharm business currently is going through a soft cycle. There is pressure on margins. Also, there is some competition, right? And earlier we were only working in some geographies with some clients. Now we are expanding our customer reach and markets. The whole idea is to ensure higher capacity utilization and also because we are ambitiously working on capacity expansion we are also investing in our supply chain capability in this business. So going forward, in Aquapharm, we are very confident of increasing volumes as well as the margin profile.

Aditya Khetan: Got it. Sir, coming on to the Aquapharm, what sort of volumes we can expect for FY '25? And what growth percent can we be building for the next two years in FY '26 and '27?

Raj Gupta: Current year, I think we will be somewhere around 100,000 tons, maybe 100,000-110,000 tons. The total capacity remains 130,000 tons as of now, I mean with current product mix. So maybe we will be somewhere around 100,000-110,000 tons. But capacity utilization will gradually increase towards third and fourth quarters. So we expect better volumes towards third and fourth quarters. Also some of these lines that we are adding now in the new product segment will be operational towards third and fourth quarters. So that will give us some more volume.

Aditya Khetan: So on to the volume growth, can we expect, sir, 15% to 20% in FY '26 and '27?

Raj Gupta: Yes. Our target is a little more ambitious. I think we can grow between 20% to 25% volume growth going forward, I mean from FY '26.

Aditya Khetan: Got it. Sir, although the capex part you had mentioned, but I missed that point. So if you can highlight the capex we are doing for the next two years and if we can break it up into the Carbon Black and into the Aquapharm?

Raj Gupta: I was giving next five years projections. This 12% growth for which we have very high visibility would require roughly 400,000 tons of capacity addition in our conventional segment, which is Carbon Black including the specialty. And Aquapharm, we would be adding 38,000 in the current year and then an additional capacity of about 100,000 tons more in the next four to five years.

Aditya Khetan: So sir, what would be the capex number?

Raj Gupta: Roughly, you can consider INR60,000-65,000 a ton for carbon black. So roughly INR2,500 crores of capex in carbon black segment. And for this additional 38,000 tons that we are adding now, we have already spent about INR165 crores which is appearing in our CWIP as on 30 June. So the balance expenditure on the 38,000 tons will be roughly about INR50-odd crores which will come up in the current year itself. And for the additional 100,000 tons we will be spending roughly about INR400 crores to INR500-odd crores.

Additionally, for this battery chemical capacity which we are adding that will involve 2-phase expansion. So in the first phase we are putting up 2,000 tons of capacity which will involve roughly about 28 million USD so roughly about INR250-odd crores. And in the 3 years' time, we expect the capacity to be fully utilized so we will be doing another similar size plan. So on battery chemical side we will be doing about INR450-500 crores worth of capex. So between all three if you add up then we will be doing roughly about INR3,400 crores kind of capex in next 5 years' time.

Aditya Khetan: Got it. Sir since like our company would continue to remain in capex and annual would be somewhere around INR800 crores, INR900 crores if I just divide by your number. So sir, I just want to know on to the acquisition of Aquapharm we had taken INR3,800 crores as debt. So how you see that consolidated debt position will remain at this level an annual interest cost of INR420 crores would remain or you expect some decline there also because we are in capex mode and we would be using all the money, cash flow to fund that capex ? Any thoughts on to the debt part how that will shape up?

Raj Gupta: Okay. I'll just give you some numbers, Aditya. Yes, we have capex and we have borrowings in our books roughly INR4,400 crores of net borrowings,, INR4,300 crores of net borrowings as of now, but if you add up next 5 years cash flow I mean starting from 2025, this year itself we are going to do a cash flow of about 1,000 odd crores before capex and if we add up next five years that will add up to about roughly 10,000 crores.

Moderator: Sorry to interrupt. Sir voice has been muffled while speaking. I request you to come closer to the speaker and speak in between your voice has been cut off?

Raj Gupta: Yes. So Aditya I was mentioning that while we have borrowings in our book, roughly INR4,300 crores and we also have capex of another INR3,300 -3,400 crores lined up for 5 years. If you calculate the cash flow that we are going to generate in the next 5 years, that is going to add up to almost INR9800-10,000 crores. So that is not only sufficient to take care of our capex, but to also repay the entire debt. And yes our interest cost is going to go down every passing year.

Aditya Khetan: Okay. Sir you mentioned that INR9,800 crores cash flow for the next 5 years?

Raj Gupta: Roughly INR10,000 crores, yes.

Aditya Khetan: Okay. And sir our -- I think sir it would be around INR1,000 crores annually, right? So we are expecting incremental INR1,000 crores cash flow from '26?

Raj Gupta: It will not be linear. Every passing year. because of volume growth and margin expansion, our cash generation would keep increasing. Current year will be roughly around INR1,000 crores. And then, of course, it will keep increasing.

Aditya Khetan: Okay. Got it. Sir, one last question if I may. Sir, on to the ban of EU into Russia sir are we getting any incremental inquiries from the EU players and this volume growth in exports market which we had clocked in this quarter how much proportion would be towards the European market and any further sort of inquiries or are we getting it and are we looking for a long-term tie-up from that market?

Raj Gupta: Yes, Aditya. Most of our overseas sales are now strategic …to our strategic customer base. So we do sell some quantity in spot market, but our endeavour is always to get into long-term arrangement with customers who we consider strategic for business. Now this Russian -- the sanction on Russian carbon black industry officially it has kicked off from 1st of July, but the real benefit we will start getting from maybe next 2-3 quarters because there is some stocking which happened in Europe.

But even despite that our volumes in Europe has been going up steadily. Last year we did about 14% of our international volume from Europe. And this quarter we have already reached about 21% , I mean of international volumes coming from the European markets, so it is steadily growing.

And we have made significant investments in our supply chain bandwidth. It is not only in Europe, but across geographic, which we consider important from growth perspective. We are into aggressive capacity expansion phase and therefore we need to constantly keep on adding customers and geographies. So that remains an area of focus for us.

Aditya Khetan: And sir the incremental contracts which we are doing in Europe that is at a higher EBITDA per ton or at the same level which we have done in this quarter?

Raj Gupta: I would not say a higher EBITDA per ton. The idea is to increase the strategic customer base and eventually profitability will flow.

Aditya Khetan: Okay got it. Thank you.

Moderator: Thank you. Our next question is from the line of Sanjesh Jain. Please go ahead.

Sanjesh Jain: First, on the Aquapharm part of the business. When we did the acquisition they were doing about INR380 crores, INR370 crores of EBITDA annually. Right now, we are at INR55 crores of EBITDA (quarterly). I know industry is going through a tough situation, but INR55 crores looks way too small and how do we plan to improve it?

Raj Gupta: Well, Sanjesh when we acquired this company we did not acquire it basis its current performance, but the potential that the business holds. It is going through a soft cycle currently, and lot of other chemical companies are also facing the same challenge. But we believe that it has bottomed out. And already there is a reflection in margin. It is improving.

My own sense Sanjesh is that by fourth quarter of this year we should be doing somewhere around INR80 crores to INR90 crores kind of a run rate, possibly INR100 crores maybe, if things go as planned. And there are lot of initiatives that we have taken, we are taking. We've also engaged McKinsey here to help us identify areas where we can focus more for improving efficiency. So those things are underway currently. And we are very confident that these initiatives will start yielding results soon.

Sanjesh Jain: Fair enough. Raj, you said that you are looking to increase the market share. We are already at 24%. The industry probably is growing at 4-5%. We are telling if we are doubling say in the capacity in the next 4-5 years we probably end up having a market share of about 40-45%. Is that what we are aiming?

Raj Gupta: No. The market is also increasing by roughly about 5% odd.

Sanjesh Jain: Correct.

Raj Gupta: Additionally, global growth rate also tapered down in last few years. So the current demand scenario in the industry is not reflective of its real potential. So yes of course we intend to increase our market share, but it will not be 47-48%. Possibly, we will be somewhere around maybe one third of the market share, global market share.

Sanjesh Jain: And whom will be gaining? Because if I look at the China today anything which is based out of phosphorus where China has a raw material advantage. They are only growing more aggressive. I can state you a few more chemistry on the phosphorus side where they have been going very aggressively and India doesn't have a phosphorus advantage. Now how do we plan to beat Chinese and get this market share up from 24% to 33%. So one of the reasons why market today is in slump is also because of aggressive Chinese?

Raj Gupta: There are few things that we are considering. One, of course, I mean there is a natural advantage over China when we sell in Western markets as there is antidumping duty on Chinese products. So, I mean we get some advantage there. But having said that, a couple of things that we are doing is we are looking at some kind of backward integration on the yellow phosphorus side.

The yellow phosphorus is a mineral, it is mined, but then for it to be used in our processes it needs to be converted into something else and which is very energy intensive. So we are planning to set up some yellow phosphorus processing facility in Middle East, which will save us some costs.

Additionally, our procurement team is also looking at different geographies for sourcing. Currently, most of this is coming from Kazakhstan, which is logistically not very efficient. But we are also exploring possibilities of sourcing it from other geographies. And third is, we are also looking at replacing part of the raw material chemicals that we are currently using with some other chemicals, which are not as difficult to procure in India. So those are, off course, a little long-term kind of initiatives but those are the things which we plan to repair going forward.

Sanjesh Jain: Got it. Sir, just...

Raj Gupta: For natural advantage, which you mentioned that China has, the similar kind of advantage in one point in time, China also had in Carbon Black industry. But gradually, we improved our efficiencies, our manufacturing efficiency, operational efficiency. And today, we are far better placed than where we were maybe 6-7 years back. And now that once we have crossed that path, for us to implement a similar kind of initiative model in Aquapharm, is not going to take as much time.

Sanjesh Jain: Got it. Got it, but phosphorus, India has been struggling for a while, even in the fertilizers...

Moderator: Sir, your voice is not audible, sir. I request you to use your handset while speaking.

Sanjesh Jain: Yes, Yes. I was telling Raj that phosphorus as India has been struggling for a while now. The fertilizer, which is a large consumption in terms of the volume, they also had their own fair share. But I got your point that we are looking at backward integration and to derisk this. That's a welcome point.

Raj Gupta: Also you know what Sanjesh, while we talk so much about phosphorus, all that we deal with is 10,000-12,000 tons of yellow phosphorus

Moderator: Sorry to interrupt you from the management line, your voice has been cutting off, sir?

Raj Gupta: Yes. So Sanjesh, I was mentioning that while we talk a lot about availability or non-availability of Yellow Phosphorus in India and therefore the cost impact, Yellow Phosphorus for all that we buy annually is just about 10,000- 12,000 tons. So, it is just one of the many chemicals on raw material side that we purchase. It is not the sole raw material and just accounts for maybe 7-8% of our total raw material that we consume.

Sanjesh Jain: Only 7-8% of the raw materials?

Raj Gupta: Yes. Yes.

Sanjesh Jain: Clear. Now shifting back to the Carbon Black, Raj. If I look at the global commentary from your peers, they have downgraded the EBITDA expectation for this year. Just wanted to understand how is this Russia ban thing working? Because globally, clearly, it looks like the expectation was high, but it hasn't completely flown through in terms of the benefits.

Raj Gupta: Okay. So the global peers, when you look at their commentary, because they have operations in multi-country, I mean they have manufacturing facilities in multiple geographies, so therefore, when they give guidance, they give guidance based on all these countries local demand-supply condition also. Like Cabot and Orion, they have facilities in China and Chinese Carbon Black industry is not doing well. And therefore, it will reflect on their blended margin. So that will not be reflective of the industry margin profitability or margin profile.

The way we look at it, Sanjesh, a large level of consolidation has already happened in China. Additionally, their cost structure has changed, it has gone up significantly, both on raw material side and also on operating cost side, the labour cost has gone upward, environment management cost has gone up, right? And the raw material cost has gone up significantly for them. So today, we are very competitive in global markets. And therefore, while we have continued to increase our volumes in international markets, our margin profile has also kept on increasing. It has not gone down. So that's one reflection of our ability to compete with all the global peers in global market.

Second, on top of this now with China and Russia consolidating in Carbon Black, it is going to create further deficit of material in the market. Between Russia and China, they used to control 80% of global trade. Now, China facing pressure on the cost side and Russia going out of business in the European market or Western market, some where it is going to create a larger possibility for the manufacturers in rest of the world. And Global industry was never in so much surplus supply. Even before China consolidation, there were regional imbalance only, some countries had more, some countries had less capacity, but industry was never in so much surplus capacity, which could absorb this consolidation in China and Russia.

We believe that industry is going to remain in short supply for at least next 5-7 years' time. And 3 years back also when we were asked this question that with so much capacities coming in India, how we plan to utilize our capacity that we are adding this green field. And see, it is not even1 year, and we are already at full capacity utilization. And we strongly believe that this condition is going to continue for next 5-7 years' time. And therefore, we're confident that we can grow at 12% volume. 12%, also, we are saying that additional capacity will take time and possibly even if there is opportunity, we can't grow beyond that.

Sanjesh Jain: Fair enough. That's quite elongate and clear, Raj. Just one question, this expedition of capex, which we have done in the Chennai facility of 90,000 metric ton. When are we expecting that to come online?

Raj Gupta: This will come in 2 phases, 30,000 tons we expect in third quarter itself. And balance 60,000 tons, where we will also have to do downstream, that is going to take some time, maybe about 12 months' time, 12 months from now. So by third quarter of next year, second quarter or third quarter of next financial year, it should be up and running.

Sanjesh Jain: So till then, we will be constrained by the capacity, right? We have a full utilization in Chennai and all the other facilities in which we were running at an optimal utilization business, until additional capacity come, we will be short of supply to the growth, right?

Raj Gupta: Not really. See, the way the capacities have stacked up already, we can go up to roughly around 6,25,000-6,30,000 tons of production based on our existing capacity. Then we are adding 1,10,000 ton capacity in the next roughly 12 months' time, including the 20,000 tons specialty capacity. Now this 110,000 tons capacity is roughly going to give us about 85,000-90,000 tons capacity.

So, it takes us to roughly about 7,05,000-7,10,000 tons kind of capacity. We are going to do more downstream. Tamil Nadu still gives us some scope, we acquired a small piece of land there. Additionally, we are also looking at acquiring more land. There is one large piece of land available, but it is not exactly in SIPCOT area. We're just trying to see whether we can negotiate with SIPCOT and bring it under the industrial area so that we get all the facilities of SIPCOT. If that happens than the larger facility that we are planning to build up next, we don't need to do it greenfield and that will save time also.

So, when you're talking about 12% volume growth, last year, we did 5,30,000 tons. we will be doing about 6,00,000-odd tons this year. And next year, we will be doing about 6,70,000-6,80,000. So for FY '25, '26, we have adequate capacity and by '27, we will have more capacity coming up, which will take care of the growth. So, when I am saying we will be constrained by capacity, we are saying that while we can add 12% on a year-on-year basis, growing beyond that possibly will become a little challenge, because, higher capacity addition in shorter period may be difficult.

Sanjesh Jain: Got it. Got it. That's pretty much clear. And best of luck for the coming quarters.

Raj Gupta: Thank you, Sanjesh.

Moderator: Our next question is from the line of Radha from B&K Securities.

Radha: Congratulations on good result. Sir, my question was that our target is to reach INR2,500 crores PAT in the next 5 years. So if we take Carbon Black 12% volume CAGR and EBITDA per ton of INR22,000 per ton. So I think you can get INR1,100 crores PAT...

Moderator: Ma'am please be loud, a little loud? Your voice is not audible.

Radha: To reach the target of INR2,500 crores PAT if you do a quick back calculation then in Carbon Black, as per your guidance of 12% volume CAGR for the next 5 years and EBITDA of 22 per kg, we can do around INR1,000 crores to INR1,100 crores PAT. And in Aquapharm, if you double the capacity and then full utilization in the next 5 years, we could do another INR500 crores. So can you just please explain me where the gap of INR500 crores is coming from?

Raj Gupta: Radha, first of all, we always believe that we can increase our margin beyond that. So I was also talking about it while back that there's a possibility of improvement in our EBITDA to the tune of INR4,500-5,000 per ton, which takes us to roughly about INR25,000-26,000, even if you consider INR25,000 per ton on a 12% CAGR volume growth, which kind of takes us roughly 9,40,000 tons in FY '29. If you apply it on that, we do EBITDA of roughly over INR2,300 crores.

Aquapharm already, we believe that this year with the current capacity and which is not fully utilized, we are going to be roughly about INR300 crores, and the current capacity can give us EBITDA up to roughly about INR450-500 crores because in FY '23 the company did over INR400 crores of EBITDA, with lower capacity.

If we can go up to INR500 crores from the current capacity and there will be a doubling capacity, actually, it takes us to close to INR1,000 crores. But even if you consider 70% capacity utilization of Aquapharm by 2029 on the extended capacity, we still do about INR700 crores of EBITDA.

And then the battery chemical, which is a very high-margin business, we believe that it can go around INR1,000 crores to INR1,200 crores kind of EBITDA by 2029. Now if you add the three up, it will take you to roughly around INR4,200 -4,300 crores of EBITDA. Our debt will almost be paid off with the kind of PAT that we are generating.

And we will just have depreciation of about INR500 crores. So even if you consider the interest of INR200 crores, right? And also, I mean, between depreciation and interest, roughly about INR700 crores. We deduct from EBITDA of INR4,300 crores, we are still at INR3,600 crores. You apply whatever tax rate we are still beyond INR2,500 crores. That's how we calculate it.

Radha: Okay, sir. And this capex of INR3,300 crores you mentioned. So that capex is INR3,300 crores is what we would require to achieve INR2,500 crores or anything higher?

Raj Gupta: No. Yes, this is adequate for us to achieve those targeted numbers by '29.

Radha: And sir, the INR1,200 crores EBITDA for the JV, that is for our share of JV or the whole?

Raj Gupta: No, this is whole.

Radha: Okay. And sir, Aquapharm said that in 2023, they did a higher profitability. But I believe that there was some supply chain disruptions. So that's why the profitability was higher and now it is more kind of normalizing.

Raj Gupta: Radha, now it is also not a normal scenario. '22 may have been the exception, but '23 margins are already moderated. And now what we are seeing is industry at its bottom, like most of the chemicals. So this is also not normal. And like I said, 2 things, one, the capacity utilization has been very low. We are currently at about 75% capacity utilization. Second, all the efficiency measures that we are taking on cost side and operational efficiency improvement side, those are going to take our bottom line higher. So, by fourth quarter of this year, our performance should increase, which should give us a run rate of about INR360 crores to INR380-odd crores annualized, EBITDA level.

Radha: Okay, sir. And second question was on the performance chemicals side. So, 2 years back this used to be 20% of our Carbon Black volume. Now we are at all-time high levels, 33% of Carbon Black volume. So what is leading to this high growth in this segment? And do you expect the momentum to sustain?

Raj Gupta: No. The way we look at it, though performance segment carries a little higher margin, but the offtake is not uniform across quarters and across years. So, we keep open eye, we keep on looking at how the markets are behaving. Which segment the demand and pricing and margins are attractive, and we can keep changing our allocation. So this will fluctuate between 25% to 35%, depending on industry dynamics. But our focus is more on to increase capacity, increase our market presence and improve our margins through our own efficiency.

Radha: Sir, what is leading to this volatility in performance chemical business? And also...

Raj Gupta: The end user industries are different, Radha. Sometimes when those end user industries perform well, the offtake is better in that case.

Radha: That would be construction and infrastructure.

Raj Gupta: Construction, infrastructure, automotive industry all 3, and also chemicals. I mean, it's a wide universe, very wide universe.

Radha: So here majority of the sales is on spot basis?

Raj Gupta: No. It is not majority on spot basis. While some of the sale is of course spot basis, but the customers are mostly our regular customers. So the sales are mostly repetitive nature.

Radha: Regular customers means your tire customers or...

Raj Gupta: No, not tire. I'm talking about performance segment customers. So, the customer universe is more like stable,. Of course we are adding more customers every passing year, but then customers are repetitive customers.

Radha: Sir how is the domestic export mix in performance chemicals?

Raj Gupta: It is more in international markets. So we are doing roughly about 35% domestically and 65% international.

Radha: Okay. And this currently which region can see increased demand?

Raj Gupta: Radha, you will have to ask the question again as your voice low.

Radha: Sir in export market, which regions you're seeing the increased demand?

Raj Gupta: We were always very strong in Asia Pacific. These last few years, we have been trying to build roads in Western Europe, North America. And while the markets are growing across, I mean the customers are growing across markets, we are putting a little more focus on Western Europe now.

Moderator: Thank you. Our next question is from the line of from Harsh from Kuber Investments. Please go ahead.

Harsh: Raj, you mentioned that there is a capacity expansion for Aquapharm that is underway. But in the last call, you mentioned that there is some capacity that is going to come up in the U.S. So this 38,000 that you mentioned, is it the one that is going to come in the U.S.

Raj Gupta: No, this 38,000 is entirely India. U.S we will have to add capacity because we are already operating at almost full capacity, but the line specification or the product specification is still being worked upon. So maybe we will start sharing further details about those in a quarters time.

Harsh: Got it. So this 38,000 is something that you're mentioning is going to come up in the next 6 months to 8 months.

Raj Gupta: Yes, by February or March latest, we should have this entire 38,000 tons

Harsh: Sure. And also, we spoke about the pressure on the Aquapharm margins at this point of time. Is this something that we've estimated during due diligence? Or is this has come as a surprise to us?

Raj Gupta: No, this has not come as a surprise to us because the acquisition got completed in January,. And we already had last 4 months, I mean first half was already a little subdued. I mean I'm talking about the period between April and September and then October to January was even a little softer.

So we had those numbers coming in and we also had the commentary from the industry peers. We knew that it was going to go through a soft patch. But then considering the product portfolio, the customers to which Aquapharm is catering to and the markets where they are present, we decided to go ahead with the acquisition.

Harsh: Fair enough. And my final question is regarding green chelates, we heard a lot of bullish commentary from the management regarding green chelates but it's currently only 1% of the total sales. Do we need to do some market development activities to grow this segment? Or is there a shift that is already underway and you will ride this trend?

Raj Gupta: I am handing it over to our MD, Mr. Kaushik Roy he will answer question.

Kaushik Roy: Okay. I mean there are 4 major segments. One is phosphonate, where we are 24%. And then we have got 3 major segments where we are around 1% to 2%. Green chelates is one of them. One is green chelate, one is polymer and one is chemical for oil and gas. And all 3 of them are profitability wise all 3 of them was pretty healthy.

Additionally, for green chelate, it is the biodegradable product and therefore a sustainable product, which is the need of hour for the globe in a way you can say. So all these 3 areas, we feel since we are just about 1% or 2% of the global share there has a lot of headroom to grow. You have a lot of headroom to grow.

In addition to phosphonate, where we are a strong player, we'll keep on maintaining the strength there but additionally, will grow a lot in these 3 areas particularly. And you're absolutely right. We need to do a lot of marketing activities, a lot of market development activities, a lot of customer development activities, product development activities also and geographical expansion in terms of having the right kind of logistics support everywhere.

So all these will act as building block. It is somewhat like, as you know, PCBL earlier it was primarily in the India focused organization. And today, almost 35-40% goes out of India. And we build all these supply chain blocks over a period of time across the globe for PCBL, including our R&D centre including supply chain, warehouses, logistics partner tying up, having our own offices in different countries. Similar initiatives will also be taken for Aquapharm.

Harsh: Got it. Thank you for that elaborate answer and final question...

Moderator: Sorry to interrupt, sir. Several participants are waiting for their turn. .

Kaushik Roy: We can take it offline, okay.

Moderator: Thank you. Our next question is from the line of Venkatesh from Logic tree Consultants Pvt Ltd. Please go ahead.

Venkatesh: I just have one question on -- which is more of an optionality. So when I'm reading about the literature and your own commentary about Aquapharm and everything else. Apart from what you've highlighted in terms of volume growth, is there some sort of an optionality that we are probably not still -- although we have been very optimistic on the future growth prospects.

And you could talk about the Australian JV or Aquapharm into water treatment nano-rate tubes that you talked about. Is there something where that can come as a very pleasant surprise, which can probably outdo your optimism because these are sectors which can have huge growth when you get it on the cycle, right? So can you expand a little bit on that?

Raj Gupta: Yes. Mr. Venkatesh. So if you noted, the numbers we are sharing, especially for Aquapharm and this battery venture, we have considered the same margin multiplied by the increased volume. But historically, the margins have been far better.

We are not considering those margins because then that will be a little optimistic. but chemical industry goes through cycles we all know and in 2-3 years' time if the cycle improves then we can enjoy better margins than what currently we are factoring in our calculation.

On the battery chemical side, currently, the material which we are planning to produce that gets sold at about $300 a kg. For our calculation, we are considering $100 a kg. Now that's the conservative estimate of the selling price and of course the EBITDA as a percentage of the realization. So those are all the positive upsides, which may be there. We are currently taking a conservative estimate of what the margin profile would be.

Venkatesh: Okay. And going on Aquapharm considering that they are in U.S. and Europe that's not a market that we have never been would there be cross-selling opportunities, one and concern that the capex in Europe and U.S. from the major world there is quite limited, would there be chances for more export opportunities of pouring into the U.S. market? Related question is Aquapharm is into water treatment. That's a big area, big size opportunity. You have some sort of an opportunity price that you can talk about for Aquapharm water treatment chemicals.

Raj Gupta: I'll answer the first 2 questions and then hand over to Mr. Roy to talk about the opportunity, the possibility in water treatment segment. In terms of synergy based on their supply chain network, yes, they are present in markets where we historically had low presence. So almost 75-80% of their volumes come from North America and Western Europe and we hardly had any presence in this market. We are trying to build inroads but that is a slow process. But now that through this acquisition, we have got access to this supply chain network. This is going to speed up things for us. And these are the markets which are not very price sensitive also. So we are going to get advantage of this.

Additionally, if you look at PCBL all of our manufacturing facilities are in India. We never had any overseas manufacturing experience. And therefore, also, there was some kind of scepticism about our building up some capacity outside.

Now we get this company which already has a manufacturing facility in the U.S. And the people in our team are managing it, running it for so many years. So that's a new capability which is served to us. So tomorrow if we want to set up some manufacturing facility in other parts of the world, then that capability will be useful. Now, regarding the possibility in water treatment in, could you repeat your question I will handover to Mr. Roy.

Venkatesh: Would you like me to repeat the question?

Kaushik Roy: Can I have a question on water treatment please? What exactly was the question?

Venkatesh: My question was, I think it's such a large area, and it's very important water as a team. So I'm trying to look at what is the size of the opportunity that you're looking at and what will be the application? For example, if Saudi Arabia is going to get into in a big way on capex on water treatment or whether it is in India, have you evaluated geographies and where this can be used in terms of the overall size of the opportunity size for the water treatment chemical?

Kaushik Roy: You're absolutely right. Water treatment, whole area is actually huge. And I think it is hardly explored it. It is very limited so far. But as we go along it will be more and more -- there will be a lot of focus more on in this area. In fact, in our R&D, we are taking a few more initiatives also in terms of possibility of new products in this area.

So it is not just about different countries and different locations and applications from water treatment point of view but also from a product point of view. So we're looking at that as well. We're looking at that as well. We are at to quantify that. Give us some more time, we will come back with a better understanding in terms of numbers, what is the size of the opportunity, but you are right, we feel there's a huge amount of opportunity.

Venkatesh: Okay, sir. That’s good. Thank you very much and wish you all the best.

Kaushik Roy: Just generally, for all of you, we are only discussing a few things here like Carbon Black and battery and Aquapharm. But organization is actually looking at a few other things, which we are not sharing at this point of time because it's maybe a little too early. Very exciting initiatives from other areas and maybe even breakthrough areas, breakthrough opportunities.

And I was hearing the question a little while back can it go beyond this. I'm keeping my fingers crossed but if it goes it will go multifold. It will go really multifold. So those initiatives are a very, very big. But little too early so I’m not sharing any more detail but 3, 4 more areas we are working on. Hopefully, we'll be successful, and we'll come back to you very soon.

Venkatesh: Thank you, sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for the day. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.