"PCBL Limited

Q2 FY '23 Earnings Conference Call"

October 26, 2022

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Moderator: Good day ladies and gentlemen, and welcome to the Q2 FY ’23 Earnings Conference Call of PCBL Limited, hosted by ICICI Securities Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you, and over to you, sir.

Sanjesh Jain: Thanks, Michelle. Good afternoon, everyone. Thank you for joining on PCBL Limited Q2 FY '23 Results Conference Call. We have PCBL Management on the call are represented by Mr. Raj Gupta, CFO; Mr. B. L. Chandak, Executive Director; Mr. Saket Sah, Head, Investor Relations; Mr. Pankaj Kedia, Vice President, Investor Relations. I would like to invite Mr. Chandakji to initiate the call with his opening remarks, post which we will have a Q&A session. Over to you, sir. Thank you.

B. L. Chandak: Yes. Thank you, Sanjesh. Good afternoon, ladies and gentlemen. Thank you for taking time to join us for the call. Our results were announced today, and I hope you have been able to see through.

We will start with the highlights of our performance in second quarter. The continuing stress in the global geopolitical situation, rapidly changing economic environment and lack of firm direction in the stance of policymakers has turned the business environment extremely uncertain. Usually, the short-term visibility around business is higher. This time, it is just the opposite. While we are very confident of long-term prospects and opportunities for our business, opaqueness around next few quarters is higher. Despite all such adversities, we could keep our focus firm and navigate the headwinds well, and therefore, we could deliver a decent set of numbers, which reflects the resilience of the company.

We are hopeful with our continuing focus on critical business parameters, like yield improvement, productivity, capacity expansion and improving R&D bandwidth, we should be able to do much better even going forward. PCBL reported sales volume of 1,13,859 metric tonnes during the quarter. These are led by domestic sales volume of 77,963 metric tonnes and international sales volume of 35,896 metric tonnes.

If you look at segment-wise sales, tyre accounted for 82,633 metric tonnes, Performance Chemicals reported 21,200 metric tonnes and specialty black sales was 10,016 metric tonnes. For the first time, we crossed specialty black volume of 10,000 plus in the quarter.

Our revenue increased year-on-year from INR 1,068 crores to INR 1,628 crores in Q2 FY '23. EBITDA marginally increased to INR 187 crores year-on-year. EBITDA per tonne stood at INR 16,421 per tonne, Profit after tax stood at INR 115 crores during the quarter. Power generation increased from 133 million units in quarter 1, FY '22 to 156 million units during the quarter with external sales volume of 95 million units against sale of 77 million units in quarter 2 in previous year.

With rising demand for power in the country and consequent increase in power tariffs, PCBL average realization sharply increased to INR 3.97 paise per kilowatts of unit on year-on-year. Additionally, CPP capacity of 7 megawatt in Cochin is in final stage of commissioning, and we expect that will also give us good volume. Despite a steep increase in crude prices, EBITDA per metric tonne has improved on back of supply shortages and improved performance from power and specialty black.

Now let me give you current market scenario and outlook. In the domestic market, demand is growing with improvement in auto sales, easing of supply chain issues and improving economic activities. We expect tyre demand to remain healthy even going forward on the back of recovery in OEM sales across all segments and the replacement demand.

The Indian tyre and auto industry from mid-term point of view looks encouraging. However, increasing capacities of carbon black may have some pressure in the short run on margin. Export demand, which we were seeing a strong momentum for last few quarters has tapered down primarily due to disruption in global market, particularly relevant for exports to Europe.

However, with continuing consolidation in carbon black industry in China and prevailing political issues, the supply side challenges in the industry are likely to continue in the foreseeable future. Global headwinds in exports, therefore, maybe in temporary nature. Geopolitical scenario remains extremely volatile and massive fluctuations in oil prices and exchange rates remain there. We remain watchful on these parameters.

Now let me also give you status update on expansion plans. The Greenfield project of our in PCBL Tamil Nadu is progressing satisfactorily, and we expect commissioning starting from end December '22. Additional Brownfield expansion of specialty lines, two lines with capacity of 20,000 metric tonnes of each lines is happening over this financial year and next financial year.

First phase of Brownfield expansion of specialty line at Mundra is underway and expected to get completed by March '23. At present, the company has 72,000 metric tonnes capacity, and with these increased Brownfield expansion, capacity will increase to 1,12,000 metric tonnes. Our current power capacity is 91 megawatt, another seven megawatt in Kochi is under commissioning stage. This would take our capacity to 98 megawatts. And once Chennai project starts, then we will have another 24 megawatts waste heat recovery power plant. So in summation [inaudible 0:07:53], these are some of the important facts on expansion, business outlook and current performance.

Now we can open the floor for question answer. And my colleagues, Raj Gupta and Pankaj Kedia are also there. So we can take all the questions. Over to you Sanjesh.

Sanjesh Jain: Two questions from my side. First, when you talk about the challenges in the European market or the export market volume, can you help us understand what are the challenges, are we looking at the slowdown in the demand or rising supply from China, what is the actual problems in the export market? Can you elaborate on that? That's the first question.

Second, related to domestic demand, the rubber prices have eased from the peak and the auto sales have gained the momentum, but we are yet to see the revival in the domestic volumes of the carbon black, Phillips Carbon, PCBL. Can you help us understand the volume demand outlook for the domestic market? These are my first two questions. Thank you.

Raj Gupta: Sanjesh, regarding your question about the outlook of our sales in overseas markets, when we started the year, the growth expectation, economic growth expectations for our economy as well as global economy was significantly higher. You would recall two quarters, three quarters back, we were talking about 7.5% plus kind of growth for Indian economy and about roughly 3% - 3.5% kind of growth for global economy.

Unfortunately, this continuing geopolitical scenario in Eastern Europe, has escalated the energy prices significantly in the last two -three quarters. And most of the European countries now they are moving power from industrial usage to domestic usage,i.e, retail usage. And most of the chemicals and our product alike, these are industrial intermediaries. So these are used by businesses, industries to produce their material. It is an intermediate product.

Now if the overall production levels in Europe, EU is a, you understand it's a large consuming market, it is not one country but it is all the countries in western Europe. Now, and it accounts for almost close to 18% -19% of global carbon black market. Now with that background, if we see some tapering down of industrial goods demand in Europe, which is visible now though in a very small manner, but it has started to become visible. So then that is certainly going to impact the overall demand for carbon black globally, because it's a large consuming market.

Now, having said that it is little early, we don't know how the situation is going to unfold over next few quarters because the situation is so very volatile. In every few months even the stance of policymakers are changing. Sometime they are talking about bond sale program, unwinding program, I mean, quantitative tightening program, in some of the countries, they have started buying bonds. And so the situation is evolving and we are keeping a close look on the situation.

But at the same time, I would say that so far in difficult situation, we have been able to sail through and navigate the headwinds much better than most of the other businesses. So we retain that confidence, and we believe that we will have the capability to withstand market challenges. But having said that market challenges are there.

Sanjesh Jain: And on the domestic demand side?

B. L. Chandak: Domestic demand, the auto companies, what we learn from tyre and auto companies is, they are looking at decent growth going forward and on the ground also, we are seeing that. However, new capacities are coming up in carbon black space. So it is more of a supply side issue in short term rather than a demand issue in domestic market.

Sanjesh Jain: Can you help us with the supplies that is coming in the domestic market apart from our 1,50,000 metric tonnes. What are the other capacities which are coming and when?

B. L. Chandak: See, Epsilon we all know that, I mean, that was commissioned a couple of quarters back. So that was an additional supply. BKT has announced capacity additions. Though we are not sure about the exact timing of commissioning of their facility, but in the next few quarters, it should come. Our facility is almost ready, it should be -- we are ready for production in the next couple of months so, and then recently, Continental carbon also commissioned their plant in Gujarat. So if we consider all these facilities that we are talking about some more than 0.5 million tonne capacity, additional capacity in India.

Sanjesh Jain: So basically, BKT is any which ways was a backward integration, I don't think they sell in the market. Epsilon, Continental and PCBL, so you are telling between the three, 0.5 million capacity addition out of which 0.15 million is ours, how much is Epsilon which has added?

Raj Gupta: Epsilon added roughly 1,15,000 tonnes.

Sanjesh Jain: And Continental?

Management: Continental has also added 150,000, 1.5 lakhs tonnes.

B. L. Chandak: [inaudible 0:15:34].

Sanjesh Jain: No, we couldn't hear you Chandak, can you repeat again?

B. L. Chandak: What I was saying that new facilities are in Gujarat, their existing plant is in Ghaziabad. So they will require a lot of approvals from customers, and that will take some time. But over the next couple of months, they will also start supplying a little bit of carbon black in Indian markets. As far as export is concerned, generally, we are quite strong on that. And others mostly, they are selling in domestic market.

Sanjesh Jain: And does this scenario change in Chennai plant capacity utilization range that we have earlier talk, which is around 18 months to 24 months. Does that change the outlook for our Chennai plant capacity utilization?

Raj Gupta: Not really, Sanjesh. Not really. As Mr. Chandak also mentioned, in his opening speech that in short term of course, there are uncertainties and there are challenges, but directionally, we believe that it's a long term growth phase for industry. For most of us in Indian carbon black industry, we are hopeful that capacity utilization should not be a problem.

B. L. Chandak: This should develop over 18-24 months

Sanjesh Jain: On the specialty side, the first phase in Mundra, 20,000 metric tonnes what we are adding by March '23, what are the product line are we targeting with that plant?

Raj Gupta: The product range, you are inquiring, right, Sanjesh?

Sanjesh Jain: Yes. Correct.

Management: Will be mostly catering to fibres high end ink and coating.

Sanjesh Jain: So coating, what are the other two things you said?

Raj Gupta: Coating, fiber and ink.

Sanjesh Jain: Okay. Coating, fibers and ink?

Raj Gupta: Yes.

Sanjesh Jain: Okay. And these will be on new products, or it is the expansion of the existing line?

Raj Gupta: No. We have some grade for these applications, but from our existing line, we can't produce this high level of grades. So like last time also I mentioned that we required specific equipments, different equipment for different kind of grade, so this is expansion of our portfolio in a way. This will help expansion of our portfolio.

Sanjesh Jain: And how is the China situation, supply situation even they are facing demand side issues, and we have seen this happening in the PVC as well. They have a large production and as soon as the demand slip, they tend to offload those volume in the peripheral market, including in India, are we seeing any such scenario in the carbon black, where China has getting more aggressive as far as the supply market is concerned?

Raj Gupta: No. So far as their China's export prices are concerned, these are still higher as compared to our selling price. So they are doing little exports. I mean, little export to India. The volume is not much, last month, they did some 1,400 tonnes. If you were to see it in the right perspective, they used to do close to 5,000 tonnes a month about 1.5 years before. So volume is not much and the prices that they're exporting to India is quite high. And if you look at the feedstock prices, currently Carbon Black oil is quoting at around $925, $930, and our feedstock landed basis, is less than $600. So the arbitrage, negative arbitrage for them remains actually.

Sanjesh Jain: Any reasons in this quarter, why our sequentially gross profit per kg has come down from INR 35 odd to INR 32 odd?

Raj Gupta: Sanjesh, last quarter we mentioned that market was completely sold out. In the spot markets, we could make very high margins. But we also mentioned that this is one of kind of a good situation, one of kind of a good quarter. And when we look at a base quarter, we should look at 2022 full year numbers as base. And from incrementally whatever we are doing on efficiency improvement, capacity enhancement mean operating leverage and product development, etcetera, I mean, Specialty portfolio and yield, that should give us on an average about INR 1,000 of incremental EBITDA, on an average annually. So it should be seen in that perspective, so the last quarter should not be considered as a base.

Sanjesh Jain: One last question before I get back into the queue. On the balance sheet side, the working capital looks like it has jumped significantly on the receivable side, particularly. Any particular reason why the receivable has gone up so sharply? I understand the price hike, but that should have compensated with the higher creditor days, but that's not happening?

Raj Gupta: So Sanjesh, if you look at the operating cycle or the number of working capital days as compared to 31st March, we have gone down by two days. In absolute terms, the numbers look bigger, because there is a significant increase in our topline. As compared to March quarter, our topline has gone up by more than INR 400 crores and consequently, there is slight increase in inventory and some increase in receivables. Payables have also gone up. Payables has gone up by about INR 100-odd crores.

So net-net basis operating cycle, we have been able to reduce by two days. And as crude prices come down, last quarter when we were selling, we were selling this $112 average Brent. But I mean, from that level crude has come down by almost close to $20. So that will reflect in our working capital requirement going forward. If crude remains at current level, there will be a release of working capital in next two quarters.

Moderator: Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited. Please go ahead.

Chintan Chheda: Sir, my first question is related to gross margins. So this time we had seen some INR 2,600 quarter-on-quarter decline in gross margins. And as you said, the raw material, the crude itself is very volatile, so have we experienced any inventory loss during the quarter?

Raj Gupta: No. Again, you'll have to see it in the light of whatever gross margins were there historically, and how it has changed over last few years, what was our gross margin per tonne last year, what was our gross margin per tonne in the March quarter and then in that light if you see, second quarters number sequentially, of course, it is down by INR 2,500, but as I just mentioned that last quarter was one of exceptional quarters, we could make very high margins in spot market, but that should not be considered as base. But just to give you another perspective, the margin per tonne that we made in second quarter is second highest margins in our history, we never before made this kind of margin. So but when you look at it from last quarter perspective, of course, it will look lower.

Chintan Chheda: And secondly, sir, when I look at our specialty volume for first half, so for the first half of this year, we have barely reached around 20,000 tonnes and our guidance was on last year's 35,000 volumes, you were reaching an incremental 10,000 tonnes. So in second half, are we confident of reaching to that number of around 45,000 tonnes in specialty?

Raj Gupta: Well, Chintan, when we gave the guidance, the economic scenario was different. But having said that, even if we were to split this full year volume into, say, two halves, then logically, we should have done about 22,000 tonnes, 22,500 tonnes. We are very close to that and if you have noticed, every quarter, our volumes are increasing, so second quarter volumes are a little higher than the previous quarter and first quarter volumes were higher than the March quarter. So considering that, we are still on track, and we are hopeful that we should be able to deliver the volume for this year

Moderator: Thank you. We have Aditya Khetan, again in the queue from SMIFS Limited. Kindly proceed.

Aditya Khetan: Sir, my first question is on to the supply side. As we have mentioned that so roughly around 5 lakh tonnes capacity is that to enter the market, so any timeline you can give sir, so when this capacities would be fully absorbed by the market, so considering the two years to three years timeframe?

Raj Gupta: Aditya, when we were planning this expansion, the Greenfield expansion, two years -three years back, even then we had planned it based on expansion of our own market size and therefore, last three, four years, we have been focusing a lot on creating a stronger base in overseas market. So we have set up our own offices, our decanting stations, warehouses and also tied up with supply chain partners.

And the whole idea was that when we add capacity, we should not be dependent on any single market. And see last two years/three years we have been communicating to the market that India appears to be a good place for expansion of carbon black industry. And because the opportunity is big, we will see capacity expansion by other players also. So this was all expected. There's nothing which was not known to anyone of us. So in that background, we are confident that we should be able to utilize the capacity, our capacity, despite all the new capacity addition by other player. So in next two years, we should be looking at next phase of expansion. That’s how we see it.

Aditya Khetan: So the 1.5 lakh tonnes so can we assume so by FY’25, we will be able to consume it full by FY’24?

Raj Gupta: Could be. That will be the endeavor of the company. Of course, you will understand thatwhatever we say despite that, economic scenario and geo-political scenario both are very rapidly changing, it’s an evolving scenario. So at this point, we still feel confident that we should be able to utilize the capacities in two years time.

Aditya Khetan: How the competitive intensity scenario would change for the next two years? Because as of now in this quarter number, so we have also the average realization for carbon black is around INR 140 price per kilo. So this looks like a majorly a pass on of the increase in raw material price. Now considering so new capacities that also coming in and the crude prices have also started to decline. So where you think like competitive intensity, the realization would start to decrease. So how should we see for the next two years into this context?

Raj Gupta: We will not look at India in isolation. So when we look at the global scenario in our industries, the consolidation which is happening, which has happened, and which is happening in China, it is much larger than the capacity addition which we're seeing now in India. So from that perspective, we don't see a challenge from supply side…. I mean too much supply coming to the market. We believe that the space vacated by China is too big to accommodate everyone. On the other hand, once the current uncertainty and volatility settles down, we see a robust growth in Indian tyre and auto industry. And we are therefore hopeful and long-term perspective of the industry looks good.

Aditya Khetan: Sir onto the China side, now there is a fresh cases of COVID which has been resurging now into China and some of the ports have actually shut down the business. So are you witnessing any slowdown in imports from China and that would benefit the domestic industry at least for the short-term, but you had are given a guidance for a brief outlook for the short-term, so I would like to know on this?

Raj Gupta: We are not giving a week outlook for the short-term. What Mr. Chandak mentioned was that there is opaqueness around what is going to happen in next two quarters-three quarters and that is because of very high level of uncertainty around geopolitical and geo-economical situation. He did not say that our performance would be bad. It might be better for all we know. So we are only talking about the uncertainty level which is very high currently. But long term outlook of the industry looks pretty encouraging. We are very hopeful that in India carbon black industry would grow possibly multifold in next decade, and all participants of the industry would benefit [inaudible 0:30:37]

Aditya Khetan: Into your intial remarks, you might have stated also on to the European capacity. So that figure you mentioned, that 18% to 19% of the global capacity, what you think of Europe right now?

Raj Gupta: So Europe, Western Europe accounts for about 18%, 19% of consumption in our industry. But of course it is not going to become zero. Auto sales might get impacted there for a while as long as energy crisis persist. But sooner or later that is also going to end. So, all we are talking about is that maybe there would be some volatility where we'll have to do some juggling with our supply chain. Maybe we'll have to move material from one market to another. Sell more in some market, sell less in another market.

So that permutation-combination possibly will have to continue in next two quarters. But it is not going to be absolute destruction of demand. Maybe it will be temporary, some impact on the consumption side and which certainly will impact the industry. I'm not saying that, it is not going to impact the industry. So one part is that the impact on industry which is going to be there and second is our own capability to navigate through the situation. So what happens when there is a strong headwind? In last few years, despite all the headwinds, we have been able to navigate well. So that gives us confidence on our path forward.

Aditya Khetan: And sir, what would be our percentage of exports which we are supplying to Europe?

Raj Gupta: Currently it is not much. Out of total exports that we do about 15%- 16% to western Europe. But that is on an increasing trend. So Europe was majorly buying from China and Russia and now with issues with Russia on the geopolitical side and changing trade relations with China, and China cost structure has also changed. So with that, Europe is importing more from India. So that remains a potentially big importer for our industry, European market going forward.

Moderator: Thank you. The next question is from the line of Sailesh Raja from B&K securities. Please go ahead.

Sailesh Raja: So the Thailand tyre market is very similar to India. Since I am assuming that carbon black market size to be around 6 lakhs to 7 lakhs maybe per annum in Thailand. So how much volumes currently we are factoring to Thailand and what is our market share?

Raj Gupta: We are not doing much business in Thailand, because Thailand is self-sufficient in their requirements.

B. L. Chandak: No, Aditya Birla's, and such industries is out there..

Raj Gupta: Our sales in neighboring countries like Indonesia, Malaysia, Vietnam, there we are selling more. But in Thailand we don't do significant volume.

Sailesh Raja: In overseas market, can you give us the volume mix between the Asia, you mentioned about Europe it is 15%, can you give share how much it is in Asia and US, in the first half?

Raj Gupta: In terms of percentage, currently we are doing about roughly about 77%, 78% in Asia, around 15%, 16% in Western Europe, around 3%, 4% in North America and rest in the Middle East and Australia and other countries.

Sailesh Raja: So in specialty, we have done 20K volumes in first half, in that how much is exports?

Raj Gupta: About 70% is exports.

Sailesh Raja: So how many new grades we are planning to launch in this current year and next year? And currently, what is the user industry mix between the plastics, inks, paint, coating and with the new Mundra line, how the mix will change?

Raj Gupta: If you look at the specialty landscape from the industry perspective, almost 65% gets consumed in polymer application, which is plastic application. Roughly about 15%, 20% goes into inks and dyes, then about roughly 5% gets into conductive applications and balances multiple applications like adhesive, fertilizers, cements and many more fibers and all. So, in our portfolio also decent chunk will pertain to plastic application, if you look at it from the portfolio perspective. The new grade which we are developing is largely in ink, paint, coating, fiber, but plastic will still remain large. I mean, from overall volume perspective that will still not be very big because while we will be producing those grades, the utilization of line will take a while.

We already have some capacity cushion on the specialty side, and this additional facility, initially the volumes will not be like full utilization of the line. So from that perspective, it will not change the portfolio percentage significantly. So maybe our ink, dye or fiber portfolio will go up slightly and maybe polymer portfolio the percentage might come down by 2%, 3%, but it will be a gradual change in the color of our portfolio over the next few years.

Raj Gupta: Now, you also asked, what was the first question, Sailesh?

Sailesh Raja: Exports, you have answered, sir. But how much is exports, I have asked. In 20K volumes in first half, in specialty how much exports we have done?

Raj Gupta: So you also asked about how many grades we are going to launch?

Sailesh Raja: How many grades, you are planning to launch in the current year and next year.

Raj Gupta: Last two years, we have been launching some seven - eight new grades every year. And we believe that this year, I mean, that pace would increase little bit. So maybe between 10 to 12 grades.

Sailesh Raja: One of the huge drop in performance carbon black volumes over last year, same quarter, so what was the reason?

Raj Gupta: There are different customers in India and outside India, and if you notice, our export volume in this quarter has gone up. So we are moving volumes from one country to another and end application also changes, because the customer may not have a similar requirement. So we had to utilize our lines more for rubber application in this quarter.

Again, like I said, that market is extremely uncertain. And therefore, we have to be very agile with the market condition very closely and accordingly respond to market. So in next few quarters, possibly you will see this shift between quarters, sometime more performance, sometimes more tyre grades. But the whole -- from company's perspective, we would want to utilize our capacity to the fullest and with that perspective, wherever we see opportunity, we'll utilize that.

Sailesh Raja: One last question after this and the Chennai and Mundra expansion, so what is our capital allocation policy?

Raj Gupta: Capital allocation policy, there would not be much change, Sailesh. I mean, if you're talking about payouts, my sense is that the Board is going to maintain that. We believe that we will be generating decent cash going forward, so we can fund our expansion and also afford to maintain the payouts. So there would not be much change in our capital allocation policy.

Raj Gupta: Thank you. The next question is from the line of Dhiral from PhillipCapital India Private Limited. Please go ahead.

Dhiral: Good afternoon, sir. Thanks for the opportunity. Sir. In terms of on the supply side, particularly on the Europe, are we getting any advantage as Europe +1?

Raj Gupta: We are all reading the reports, you must have also read that overall trade volume with Europe has increased in last few quarters and we are also benefiting from that. Of course, there are lots of customers, who are sending us their orders, their queries. So the activity between India and Europe in our industry has gone up and we are surely going to benefit from that.

Dhiral: So, in terms of supply, how much they contribute to the overall carbon black market?

Raj Gupta: They consume close to about 2 million tonnes.

Dhiral: And how much they export?

Raj Gupta: Western Europe is net-net importer, Dhiral. I mean, last seven years, eight years they have not invested in capacities, so they are net-net importers. Earlier they use to import more from Eastern Europe and China, and now they are focusing more on Asian countries.

Dhiral: And sir, on the Y-o-Y basis we are seeing rise in the employee cost?

Raj Gupta: Last two years, three years, because of COVID, we were like little constraint in terms of increments and bonuses and all. So therefore, the cost in 2020, 2021, 2022, it was a little lower, that is one. Number two, we are expanding. We are adding capacity both Greenfield and Brownfield, and we require more manpower in our facilities. Also, our R&D bandwidth, we are improving. So we are hiring more people both in our Indian R&D center as well as in the Belgium R&D center. So with that, there would be upward movement in manpower cost.

Dhiral: And sir, as you stated earlier, that we are targeting INR 1,000 EBITDA per tonne improvement year-after-year. So that will continue even for next few years?

Raj Gupta: Yes, like I said, that last four - five years, if you look at the same, that's how we have been able to perform. Again, going forward also, we are optimistic, we should be able to continue to perform that way. Of course, it is not that every year there will be that much incremental contribution or EBITDA improvement, some years it may be more, some years it may be a little less. Yes. But from a five-year perspective, if you see, we feel that we should be able to add 4,000 - 5,000 kind of additional contribution.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: Yes. So I just want to get some sense, Europe we are seeing several challenges I understand, but what about our other export market, South Asia and America? And earlier we had a logistic cost big issue, which has now coming down and realistically will be normalizing. So is there any further scope to increase our export to North America? So if you can give little more color on that?

Raj Gupta: Certainly there is, like I mentioned, Europe it appears to be a big opportunity from the two long term perspective. North America also is an opportunity but North America is a very distant country. I mean when we talk about Mexico or USA, the logistics cost is prohibitive. – (inaudible)we normally do more of high value grade there. We don't do much of normal grades. Because it impacts our margin.

So from that perspective, North America possibly will remain a specialty market for us not so much, so the conventional grade. Europe is a big possibility, I said. And to answer your question on the logistics cost side, yes, logistics costs have come down from their peak, I mean, at their peak they were almost 6x-of pre-COVID level.

From that level they have come down by almost 50%. But even now itsabout 2-3x compared to the pre-COVID level. So they are still elevated. But because we negotiated our contracts at a higher rate beginning of the year, so in these quarters our actual freight outflow is much less than what we built into our contact and consequently they are supporting our margins..

And in the current quarter the performance that you see, it is also partially because of higher contribution from the freight side. So we had to pay less freight. And next two quarters also if freight rate doesn't move up. Currently it is coming down, which should further provide support to our margins. So again Bharatji, if you look at different side there is a demand slow down globallyin India there is surplus capacity and yet this quarter our numbers are far better than other quarters.

Don't look at only last quarter, but if you compare it with any other quarter in our history the numbers are very goodbecause there is also some upside from these factors like containerized freight and all. The sum total is that performance has been decent during the quarter.

Bharat Sheth: How about the outlook on this Southeast Asia market and Middle East market?

Raj Gupta: We are not seeing much impact on Asian markets. Asian economy still relatively looks better when we talk about our neighbor consuming market like, Vietnam or Indonesia, Malaysia, most of these countries look stable like India. So from that perspective, we are not much bogged down or overwhelmed but like I said that Europe, North America these are large economies and eventually they impact the global macro-economic situation. So how that is going to impact our industry isyet to be seen.

Bharat Sheth: Two questions. Is there any impact on export to Europe, because of depreciation of Euro, vis-à-vis Indian rupee, any impact on our realization?

Raj Gupta: No. Normally, whatever contracts we do for overseas sales, we hedge them as part of our policy on day one. So therefore there is no impact of currency fluctuation on our margins.

Bharat Sheth: And last question. Normally we were saying that crude price was increasing that with our OEM suppliers and they pass on the of hike in the input price is quarterly basis, so now in this Q2 price has been later on September and declining, but will be still it was much higher and now it is going down, so will be able to realize a better able to take some price increase on Q-o-Q?

Raj Gupta: Bharatji, the price is not an indicator of our profitability. So whether the price goes up or down, that doesn't impact our per ton margins, and the lower side scenario actually is good for us because it helps us release working capital and also it is good for our customers because they make more margin. So, on lower price scenario is benefit.

Bharat Sheth: And lastly sir, on this segmental performance, Q-o-Q, there is an increase in the un-allocable expenses, so any specific reason?

Raj Gupta: No, we have two segments power and carbon black, and sometimes the expenses are common and therefore it is un-allocable, but that is only a reporting perspective. Actually, whatever expenses we incurred, these are all business expenses, so wherever we are allocate it, ultimately it remains business expenditure, Bharatji.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities Limited. Please go ahead.

Shashank Kanodia: I just wanted to get sense, what are the prevailing prices of carbon black domestically?

Raj Gupta: Last quarter it was around INR 140,000 per tonne, Shashank. I'm talking about average and this quarter it is going to drop by roughly about INR 10,000 a tonne. So around say, INR 130,000.

Shashank Kanodia: And secondly sir, in the quarter two, were there any spot benefits as well? So is this INR 16,400 or INR 16,500 the base number that we should be working for, the EBITDA per tonne for PCBL?

Raj Gupta: I did not understand your question. You're saying that last quarter number should be consider as base?

Shashank Kanodia: No, in Q1, we had some spot benefits, because of which we had a record high EBITDA per tonne. So for this quarter also, were there any spot benefits or this is going to be a normalized base for us now, INR 16,400 or INR 16,500 is EBITDA per tonne?

Raj Gupta: No, Shashank. Actually, what is happening, freight rates are coming down. When we signed our contract beginning of the year, we signed at a very high freight rates. So our realization remains higher and we are having to pay lower freight to shippers, so that is increasing our margin. But that is not normal base, because again, end of this year, this calendar year, again we will sign new contracts and it will be based on the new freight rate. Therefore, every time

I'm saying that we should look at our last year's full year performance and that we should consider as our normal base.

Shashank Kanodia: Sir then, INR 14,400 incrementally INR 1,000. So INR 15,400 or INR 15,500 is sustainable, base rate as on date?

Raj Gupta: So in some years, we might make more than that. In some other years there would be maybe some dip. So for all we know, this year maybe a little higher INR 10,00 but then, I mean that should not be consider as base. Because earlier than we will start building unrealistic expectation.

Shashank Kanodia: Given the macro uncertainty as well as some supply side issues in domestically, so can we expect a single-digit overall volume growth for PCBL this year? Something like 4.75 lakh odd tonnes?

Raj Gupta: Single-digit growth maybe there, it would depend on how next two months the market situation turns out to be. Honestly speaking, volume growth actually next year onwards we will be able to deliver better, because then we will have capacities available and we expect the market also to improve from the current scenario.

So this year topline numbers of course I mean are higher because of higher crude, possibly bottom line numbers will also be better compared to last year, because of higher margin and the spot opportunities and different opportunities, but volume I think mostly would come from next year, volume expansion.

Shashank Kanodia: And sir, lastly on the payout, so we intend to maintain this 40% payout ratio?

Raj Gupta: Well, actually I mean it's a Board level decision. Shashank, you will appreciate. So, my understanding is that we have been maintaining that around 35%, 40% kind of a payout. So in all likelihood that should be maintained. But again, it's a board issue, so they will decide.

Moderator: Thank you. The next question is from the line of Radha from B&K Securities Limited. Please go ahead.

Radha: So, I wanted to understand what is the highest realization per tonne this quarter? So how do we understand this, what is the reasons behind this other than growth in specialty volume? What are the other reasons behind this?

Raj Gupta: Sorry, I did not understand your question, would you please repeat?

Radha: So, we have achieved the highest realization per tonne this quarter and I believe one of the reasons is that we have achieved 10,000 volumes in specialty. So one of the reasons is growth in specialty, so what could be the other reason for such growth in realization per tonne?

Raj Gupta: So, realization primarily is a reflection of change in crude prices. Normally Radha, we operate with a one quarter lag pricing formula, so in last quarter when we did the pricing, it was based on average Brent rate of $112. Our raw material prices are linked with Brent. And last quarter when we did the pricing, it was based on an average Brent price of $112 per barrel.

So consequently, our realization also went up. Especially, specialty did contribute small parts to overall realization, but specialty volumes even in the previous quarter was almost similar, maybe 200 tonnes less. So, that has not been the major factor in realization. But like I keep mentioning, realization is not an indicator of our profitability. Realization might move up and down based on the crude level, but our margins are more dependent on operating leverage, our own product portfolio and our operating efficiencies.

Radha: Could you explain the reason for raw material cost as per tonne as well? How do we look at it?

Raj Gupta: A raw material is linked to oil, crude oil, Brent.

Radha: And that would be how many quarter lag?

Raj Gupta: It's one quarter lag.

Radha: Also on a Q-o-Q basis, we have seen that there is a reduction in other expense on the absolute value, I'm talking about. So what could be the reason for this other than freight? Any other reason?

Raj Gupta: Yes, so in quarter-1, we carried out some major maintenance activities, which of course we did not have to carry out every quarter. So therefore there was some saving in expenses and then freight also contributed this year.

Moderator: Thank you. The next question is from the line of Peter from Ksema Wealth Management. Please go ahead.

Peter: First question is in terms of clarity, you had mentioned about the split of Asia 78%, Europe 15%, North America 3%, was that our revenue or volume?

Raj Gupta: So, the selling prices is more or less and we sell on landed price. So, more or less it is similar realization in most of the geographies, except the freight part. So, volume and value will be similar.

Peter: Just to understand, export growth. So other than India is domestically strong, Europe you had mentioned. So other Asian market, which would be the other top three major revenue contributors of some Asian market?

Raj Gupta: However, we' very strong in Vietnam account for some close to 13%, 14% of the overall market size. We do different volume in Malaysia and Indonesia. There is good sales in Japan for us. We sell to almost all countries. So even Thailand we do some volume, but it is not significant because they have their own supplies.

Peter: This is we see that you are exporting to over 45 countries, so we're just trying to understand in Asia which are the major ones and what is the outlook in them, so accordingly we can -- any major markets in Asia you feel that demand is looking weak for the next two quarters or next year?

Raj Gupta: For our market, there is no such single large country, which creates a concern for us. In Asia what we understand, China possibly would have a lower growth going forward, but that's not our market for us. India mostly imports from China. It used to import from China. And whatever volumes we're doing in China it is mostly on specialty side, which is a niche market and where the impact of economic condition on demand is much less. So as such, we are not much concerned about volumes in Asia. The worry that we have, is mostly on Western Europe side and that is mid-term we believe.

Peter: You had mentioned that since Europe used to buy from Russia and China and now they are importing from other countries, including India. So PCBL has also benefited from that same trend, right?

Raj Gupta: Right.

Peter: So this benefit for outlook, for how long do we expect to have, or should we expect to be…?

Raj Gupta: From long term perspective, it is a structural change, Peter. Russia currently, there’s a lot of sanction on it and it is unlikely that even when this war end, sanction would go away immediately, it is unlikely. China, they are reducing their capacity, so again, that is structural. So someone will have to make up for these volumes. And India appears to have capacity, capability, supply chain, logistics and cost structure advantages, and good relation with European Union. So from that perspective, long-term basis, it looks to be pretty encouraging.

Peter: Some of the other global counterparts have made as very recent as even three months back, some acquisitions in other countries, including China, Thailand so that matter, so why is that not being considered by PCBL for market expansion?

Raj Gupta: We are not averse to inorganic growth, but then we will only consider that if the portfolio is right, kind of leap in our technical capabilities and the valuation is correct.Jjust for the sake of copying others, we will not do it. And we believe that in India the opportunity for organic growth is very large. It's a multi-year growth opportunity. And we believe that in this scenario, in the current scenario, dividing our manufacturing bandwidth into multiple countries may not be very useful. So we consider India as a market for our organic manufacturing capacity growth and acquisition, if it happens, mostly it would happen in high end value added product, if at all. There's nothing in pipeline though.

B. L. Chandaka: There's nothing available.

Peter: What do you expect the realizations to increase this fiscal year compared to last year by?

Raj Gupta: Last year, if I would consider maybe on a similar kind of volume base, last year we did about roughly INR 4,500 crores that kind of a turnover, and this year already in the first half we have clocked INR 3,000 crores. My believe is that if crude remains where it is possibly next two quarters we will clock another INR 2,700 crores, INR 2,800 crores. So with that roughly, if we are around, say INR 5,800 crores of turnover let say, 4.6 lakhs tonnes of volume, so average the realization will be around INR 1,25,000, INR 1,26,000.

Peter: And sir, my final question is that some of the international players are reporting that, because of the EV battery, they see a new demand for carbon black in EV battery. So is that something relevant to Indian companies? And part two is that there is also a trend of some Orient Engineering Company is stating things like they are trying to go for natural carbon black by renewable sources, so is that something that can impact the market in the near-term and the views of PCBL on the same? Thank you.

Raj Gupta: EV battery, grade carbon black is a big opportunity and our Research and Development teams are working on that already and maybe in a a few quarters and we will also come out with some solution in that space. So that's the next big opportunity in carbon back space. Speaking about natural carbon black, when they talk about natural carbon black, they are talking about extracting carbon black from vegetation, like trees and plants and all, which is not scalable.

So maybe from ESG perspective, a very small portion capacity can be developed in that space. What but what we are working on is a futuristic technology to create carbon back, which will be more green as compared to the current processes. Again, currently that is under R&D for us, but that will be based on cracking of some gases using plasma technology and we will extract carbon and hydrogen out of those gases. So in the process, we will not create any kind of emission or very low level of emissions. These are all futuristic technologies. The teams are working on that, but like I said that, its subject matter of R&D and it will be some time before there is some success.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today, which is from the line of Aditya Khetan from SMIFS Limited. Please go ahead.

Aditya Khetan: Sir, my question was onto the raw material side. So we are almost importing roughly around 90% to 95% of the raw materials from China, and sir, we had witness that some trend into Yuan, which is the currency of China and India that in Indian currency for the last four months to five months have shown strong like the rupee has been quite strong against the Yuan. So that is this trend has helped on the imports front and that is also reflected into other expenses also which are declined by 7% on quarter-on-quarter, so can you highlight on this, sir?

Raj Gupta: Aditya, we import our raw material from outside but we don't import from China. There is no import of raw materials from China.

B.L. Chandak: Most of our imports are from US.

Raj Gupta: Our imports are all dollar denominated and from US. Yuan and Rupee equation doesn't impact our business in any way.

Aditya Khetan: On to this side so have you witnessed any impact because the Rupee has depreciated sharply against the Dollar so have you taken some impact or it is completely less effect?

Raj Gupta: No we hedge actually. As such there is no impact on our business. But what happens when raw material prices are high and rupee is also depreciating, somewhere it creates a cost pressure on everyone in the entire supply chain. So it impacts our working capital requirement in a way. So it is not good. But nevertheless, I mean on the exchange side, , there is no loss. We have a fully hedged policy against all our exposure and we just take plain vanilla, forward cover, we don't do derivative. So there is no mark-to-market risk for the company, because of currency fluctuation.

Aditya Khetan: So the 7% decline into other expenses as you mentioned, so this is primarily because of the declining price only, Because, I believe so, three months back the freight prices were on an upward trend only. So what was the actual benefit like you just gone into other expenses?

Raj Gupta: No, so freight rates have come down. I mean from their peak three quarters, four quarters back, they have come down almost by 50% and that has reduced our outward freight, which forms part of our Other Expenses. So that's one and other expenses are also down because there is some saving in repairs and maintenance expenses.

Aditya Khetan: Okay. So just one last question, sir. If we look at the realization of carbon black hypothetically considering the spot prices are INR 140 per kilo. So what would be the consecutive prices for specialty grade carbon black? So would it be around two times of the normal grade carbon black or what should we take as a number? Just hypothetically wanted to know that?

Raj Gupta: Okay. So I'll give you a number. But before that, the perspective is whereas the regular carbon black prices change immediately with change in raw material cost, there is a longer gap between change in raw material cost and change in realization for specialty grades. So therefore, when you compare the prices of regular carbon black and specialty carbon black for the same quarter, it may not give you a clear picture. But over a longer period of time, the price difference between the two, the realization different between the two, is around 20%.

Aditya Khetan: It's around, sir, two times, you said, right?

Raj Gupta: 20% higher.

Aditya Khetan: And the raw materials would be similar to make this specialty grade carbon black, which we are making for the normal grade, so the spread would be higher into the specialty?

Raj Gupta: Yes, specialty grade raw material is also different. And it is little pricey. It is highly priced than the regular feedstock.

Aditya Khetan: Okay, so we are using some sort of different grade of carbon grade feedstock for specialty or…?

Raj Gupta: Yes, we use different kinds of oils for specialty manufacturing.

Moderator: Thank you. Ladies and gentlemen, as that was the last question for today, with that we conclude today's conference call. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.