



“PCBL Limited Q4 FY-24 Earnings Conference Call”

May 23, 2024



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MODERATOR: **MR. SANJESH JAIN – ICICI SECURITIES**



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Moderator: Ladies and gentlemen, good day and welcome to PCBL Limited Q4 FY24 Results Conference Call hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Sanjesh Jain: Thanks Manav. Good afternoon, everyone. Thank you for joining on for PCBL Limited Q4 FY24 Results Conference Call.

We have PCBL Management on the Call represented by Mr. Kaushik Roy – Managing Director; Mr. Raj Gupta, CFO; Mr. Saket Sah – Group Head (Investor Relations & 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 warm welcome to the call. Thanks for joining.

As you know that, PCBL is the seventh largest globally in carbon black, with a very, very strong presence in rubber black, performance chemicals and specialty chemicals. And over the years, as you must have observed that we have tried our best to consistently perform well riding on the additional capacity, and a strong focus on research and development. And also over a period of time we have built diversified product portfolio. Simultaneously, we have also increased our global footprint, and I will talk about it later in detail.

FY24 there are ups and downs. As you know globally, there are uncertainties in the global market because of these wars which are going on, there are issues with US economy as well as European economy, but I will say that in spite of this difficult situation PCBL has performed pretty well and we are confident that going forward, we will do the same thing again, repeat the same thing again.

In FY24, let me now talk about this year in FY24, we commissioned the Greenfield carbon black project in Chennai with 1,47,000 tonnes and with this our total installed capacity for the company on consolidated basis now stands at 7,70,000 tons. In parallel, we have also commissioned the cogeneration captive power plant at Tamil Nadu site, having a capacity of 24 megawatt. And with this the total cogeneration power capacity now stands for the organization at 122 megawatts. This new Tamil Nadu Greenfield facility is based on industry standards 4.0 which



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provides cutting edge technology that includes AI, machine learning and data analytics and we are confident that it should definitely give benefit financially to the organization as we go along. It is a smart factory that will improve our reliability, our quality, standard and yield benefit. The plant was operating at 60% capacity during quarter four, and on whole year basis it was about 55%. And we are hopeful that we will reach full capacity in Tamil Nadu plant by quarter three, quarter four of FY25.

Besides this, during last year, we also commissioned one specialty black line of 20,000 tons in Mundra, Gujarat and another specialty line of 20,000 tonnes is under implementation at this point of time and will be commissioned during this current year. This strategic initiatives are expected to increase with its total manufacturing capacity to 7,90,000 tonnes in the current year itself. Further strengthening the company's position in the industry. And you all are aware of that recently PCBL acquired urban land measuring 28 acres in Mundra and this will help us in future expansion requirements.

I am also happy to announce at this point of time that we are going ahead with brownfield expansion of 90 KT, that is 90,000 tonnes of carbon black at PCBL Tamil Nadu facility. Greenfield will be completed in 2 phases. The 1st Phase will be having 30,000 tonnes capacity, and the second one will have 60,000 tonnes of capacity. And we expect to complete this expansion next year. Once this expansion is over, this would take our total capacity to 880 KT, close to 9 lakh ton. We are also in parallel evaluating a new Greenfield expansion for which necessary discussions are already undergoing. This will take our capacity beyond 1 million ton in near future. And this will also help us to significantly increase our global market share.

Most of you are aware that PCBL recently acquired Aquapharm Chemicals Private Limited, which is a leading specialty chemical company with end applications in detergent, water treatment, oil and gas chemicals, and multiple other applications. This acquisition allows us to enter global specialty segments with multiple applications and propels PCBL from single platform to multiple platforms, enhancing its offerings in-line with company's vision of becoming a trusted global player with a diversified specialty chemical portfolio. It represents a pivotal moment for both PCBL and Aquapharm, changing the company's position in fast growing and high-margin specialty chemical sector.

For your information Aquapharm derives 75% plus revenue from Western markets, USA and Europe. And these markets are pretty lucrative. Their key products include Phosphonates, Polymer, Green Chelates and oil and gas chemicals. In terms of Phosphonates, their global customers represent FMCG majors like Procter and Gamble, Unilever, Henkel, Reckitt & Colman, et cetera. Oil and gas companies like Halliburton and Baker Hughes, they are their major customers in that particular segment. And on the other hand, there are chemical giants like BASF and ION Exchange as their customers. It has got manufacturing plants in USA, India and Saudi Arabia.



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This acquisition was completed on 31st of January 2024 and a total consideration of Rs.3850 crores. The current quarters consolidated financial capture only two months because it was concluded on 31st January, it captures only two months of operation post-acquisition. At this point of time, we are working on integration of the business with PCBL and aligning the vision of Aquapharm with the growth vision of PCBL.

We plan to expand capacities of various specialty chemical in Aquapharm rapidly and this would help us to accelerate the growth momentum going forward. We have also focused on another area which is a growing segment in EV battery chemical, PCBL and Kinaltek, a Sydney based Australian company has executed a JV agreement on March 16th, 2024 to form an Indian joint venture company called Nanovace Technologies Limited, I will repeat the name Nanovace Technologies Limited, which will develop nano silicone additives to be used in anode of a lithium ion battery. The transaction involves acquiring the IPs and large-scale assets in Australia by Nanovace Technologies Limited for a consideration of \$16 million. PCBL will own 51% of Nanovace Technologies Limited and Kinaltek will hold 49% shareholding. It also involves infusion of INR equivalent amount of USD 28 million by PCBL in the JV company towards capital expenditures and commercialization of the technology over next one and a half to two years.

Kinaltek Private Limited is an innovation company specializing in advanced technologies. Kinaltek has developed a patented noble proprietary technology for direct production of metallic alloys and compounds, including nano silicon, which will have applications in lithium-ion battery. The technology developed by Kinaltek provides a breakthrough in production of nano silicone enabling lower cost and lower carbon footprint manufacturing process. Kinaltek has been awarded global patent pertaining to the above-mentioned technology.

This JV will help us to foray into the high growth battery material segment with innovative technology, giving a huge impetus to the origin of the developing conductive carbon black grid like Energia, to a Multi-Speciality material portfolio for:

1. Enhance battery capacities, enabling higher mileage to EV.
2. Faster charging.
3. Safer battery chemical.
4. Reduced carbon footprint and cost per unit energy stored.

During the current year, we plan to start work on designing and putting up the pilot plant. In April 2023, PCBL incorporated a wholly owned subsidiary company in the name of PCBL Europe SRL in Belgium. The European subsidiary would significantly enhance our capabilities to increase research and development initiatives at our global R&D center, Sushila Goenka Innovation Center in Belgium. It will also allow us to serve our European customers better by enabling local invoicing and just-in-time delivery of both rubber grade material as well as specialty chemical.



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Coming to another area, PCBL has also secured two patents in relation to oxidized and surface-modified grade, which will further strengthen the specialty portfolio of the company. Oxidized grade have applications in ink and coating, while the surface-modified grade improves fuel efficiency and tyre life.

In March 2024, our Board of Directors approved the issuance of 16 million warrants convertible into equity shares at an issue price of Rs.280 per share aggregating up to Rs.4.48 billion, to the promoter group. This would help us to deleverage the balance sheet. It also demonstrates the commitment of the promoter group towards the growth of the company.

Let me focus on another area 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 investment in infrastructure, human capital and streamline process. These investments have significantly bolstered PCBL capabilities in new product development, customization and application as well as process efficient.

Let me now give you some detail of our Q4 FY24 performance. Let me talk about some numbers:

PCBL reported a strong quarter with the highest ever volumes and best ever quarterly financial performance despite the prevailing geopolitical situation, which I talked in the beginning itself. During the quarter our consolidated sales volume was 142 KT up by about 20% on year-on-year basis, while consolidated revenues from operations was Rs.1,929 crores, EBITDA grew by about 66% year-on-year basis to Rs.332 crores. PBT stood at Rs.149 crores, while PAT increased by 9% year-on-year to Rs.111 crores. Consolidated EBITDA per metric tonne in carbon black business stood at Rs.22,600. The profit for the quarter factors in an interest cost of Rs.60 crores approximately and amortization of Rs.15 crores relating to acquisition of Aquapharm Chemical.

During the quarter PCBL Tamil Nadu achieved the sales volume of 19 KT, that is 19,000 ton which is roughly about 60% of the capacity available during the quarter. We expect other ramp up of Tamil Nadu facility in the current financial year and as I mentioned earlier, we are hopeful that by the end of this financial year we will be operating at full capacity of the plant. Of the total carbon black sales volume domestic sales volume stood at 88,000 tonnes, while international sales volumes stood at 54,000 tonnes.

Now, moving on to our segment performance:

Tyre accounted for 82 KT or 82,000 tonnes. Performance chemical reported sales volume of 45 KT or 45,000 tonnes. We also achieved specialty sales volume of over 15 KT of 15,000 tonnes which is again the highest ever in our history. We continue to expand our product portfolio and customer base. The volumes in our recently launched Energia brand is increasing and that shows acceptance by the customer. Trial runs are being conducted by EV battery manufacturers and we expect good volumes once key approvals are received. We also achieved the highest ever power generation and sale volume during the quarter. Power generation increased from 156



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million unit in Q4 2023 FY to 181 million unit during the quarter with external sales volume of 106 million unit as against 95 million unit in Q4 2023. PCBLs average realization stood at Rs.3.98 per kilowatt. With commissioning of 24 megawatt PCBL Tamil Nadu, power generation and sales volume would increase further going forward.

The Q4 FY24 financial includes two months of financial for recently acquired Aquapharm Chemicals Private Limited. For FY24 our consolidated sales volume was 531 KT up around 20% on year-on-year basis. Our consolidated revenue grew by 12% on year-on-year basis and came to Rs.6,420 crore. EBITDA grew by around 39% year-on-year to Rs.1,074 crores and PBT stood at Rs.676 crores while PAT increased by 11% to Rs.491 crores and I am happy to share with you that this is the first time we have crossed an EBITDA of Rs.1,000 crores per annum. Thanks for all your support.

The long-term prospects of all the business segment generally look very positive and we believe there will be adequate business potential to sustain the growth momentum what we have at this point of time. Considering the changes in global supply chain and consumption patterns, demand and margins in specialty chemicals should continue to remain strong. Structurally, we are increasing resource allocation to this segment.

Let me talk about current market scenario and outlook now:

The Indian tyre sector is witnessing a strong growth opportunity, and the industry appears to be well positioned to drive a long-term growth opportunity. Indian tyre sector is a big beneficiary of supply chain derisking strategy by global OEM following the continued supply chain disruptions over the last three, four years. Adding to this favorable government policies that advocate Make in India. We expect tyre industry to grow by high single digit to low double digit for next few years. The only concern which I also talked about in the beginning is the worsening geopolitical scenario. While we don't have much trade with conflicting countries, there may be indirect impact due to trade route disruptions, high oil prices and inflation.

We as an organization remain watchful of the developing situation, and continue to work on strengthening our supply chain, improvement in our product mix and also cost optimization initiatives within the organization. The recent Red Sea crisis has led to export freight remaining elevated on routes to Europe. We remain engaged with our customers to pass on the elevated freight cost to our customers. However, this comes with a lag effect, and it may not be full it may be partial.

And with this, I think I have given you more or less a complete picture. And, I conclude and open the house for any questions. Thank you so much.

Moderator:

Thank you. We will begin the question-and-answer session. We have our first question from the line of Sailesh Raja from B&K Securities. Please go ahead.



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Sailesh Raja: Europe ban on carbon black which starts the next 38 days. So, do you see any change in the market or the buyers behavior, sir players like Orion Engineered Carbons they mentioned in the recent call that their company is witnessing competition from Indian suppliers in the Europe market.

Kaushik Roy: Can you repeat your query?

Sailesh Raja: Yes, so Europe ban on carbon black starting next 38 days. So, do you see any change in the market or the buyers behavior or if you see the players like Orion, they mentioned in the recent call that the company is witnessing a lot of competition from Indian supply in the Europe market. So, on an average we are doing roughly 50 KT volumes in the exports. So, in that, how much is going to Europe market right now and how do you see that mix improving in the next two years?

Raj Gupta: We are doing about roughly 14%, 15% of our international volume in Western Europe. And that market is becoming bigger for us. We are also laying down our infrastructure, improving supply chain infrastructure. In last two years we have opened number of offices, we have put up one R&D center, we have created a subsidiary and now we are also invoicing our European customers locally. And Europe shows lot of potential. It is very large when we combine all the Western European countries, about almost close to 2 million tonne market. And they are net net deficit, importing significant quantities from outside Europe. In past they used to import mostly from China and Russia, but now they are also looking to source from other countries. So, it creates a large opportunity.

Sailesh Raja: Yes, so can you give some numbers, how the mix will change?

Raj Gupta: We did over 28,000 tonnes in Europe.

Sailesh Raja: So, how this number will change sir in the next two years?

Raj Gupta: It will also depend on number of things. See being the industry leader in India, we also have commitment to the local tyre manufacturers. TN plant, we just commissioned in FY24 and we are going through product approval process from the major customers. So we will also have to kind of create a balance between how much we would allocate to overseas market. We are currently constrained by capacity in a way. So as new capacities come up, our absolute overseas volumes will go up and like I said that Europe and North America holds a lot of opportunity as now that they are looking to change their sources of procurement.

Sailesh Raja: Sir after this 1st June, roughly, the opportunity is going to open up roughly around 1.5 lakh tonnes of volume in carbon black because of ban on Russian carbon black. So, in that 1.5 how much we can get it sir roughly?

Kaushik Roy: See, it is not that Russia ban means the Russian material is not going to go to Europe, it will still be going, maybe the route will be via Turkey, already it has started but yes, there will be some



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impact the moment it is a longer route and route through Turkey there is some impact of those. And as Raj just now mentioned that Europe is a critical focus area for us. And the market is anyway there's a supply deficit. So, we are looking at Europe, and our desire is to grow as quickly as possible in Europe. Last year, we did about 20,000 as Raj mentioned, sorry 28,000 last year and we will definitely be looking at a very fast growth, it is difficult to say exact numbers, but the intention is to grow as quickly as possible. The exact number depends on the scenario over there, opportunity over there, but we are already working with quite a few European customers very closely and they are showing keen interest to our product, so we are very open for a very fast growth over there.

Sailesh Raja: Okay. Sir, can you give us the CAPEX numbers for next two, three years how much is maintenance CAPEX and the growth CAPEX in carbon black and chemical business?

Raj Gupta: CAPEX currently we are looking to add 90,000 tonnes in Tamil Nadu and another 20,000 tonnes in Mundra which will be a specialty line, but this can only cater to about a year's kind of a requirement. So, we have already started working on, at least on the discussion stage, for a larger Greenfield plant Brownfield expansion of this 110,000 ton, the capital outlay will be around roughly 500 to 550 odd crores which will be spent during current year and next year. And by next year beginning, we would be starting the construction on the Greenfield project also and that could be kind of similar to our Tamil Nadu size. So, where the capital outlay will be around roughly Rs.900 to Rs.1000 odd crores. But exact specification or the size of the Greenfield is still under consideration and we will come back to you with more clarity, once we have finalized everything.

Sailesh Raja: In the chemical business sir?

Raj Gupta: In the chemical business, in India we have some capacity which we plan to utilize this year and next year. So, in the India we will be doing some small brownfield where we will not be incurring much maybe about Rs.100 odd crores, in US they are now running at very high capacity. US in two phases we will be spending about Rs.180 odd crores towards current year and next year.

Sailesh Raja: Okay. So, in total you are going to spend around Rs.1600, Rs.1700 over the next two years?

Raj Gupta: That will be over next four, four & half years.

Sailesh Raja: Okay. Sir just my rough estimate of cash back over the next three years is roughly around Rs.1000 crores and working capital requirements are around Rs.650 crores. So, next year for including interest is around Rs.2400, so when again this CAPEX of around Rs.1000 crore in next three, four years, then the debt reduction including the warrants we are getting from the promoters, that is around Rs.450 crores. So, rough debt reduction will be only Rs.1100 crores over next three years, the understanding is right?



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Raj Gupta: I couldn't understand exact math. But, broad numbers just to give you a sense of some color around how we look at say FY25. We did about Rs.1075 crore of EBITDA this year, which is FY24. Tamil Nadu capacity was only utilized to the extent of roughly say 50,000 ton, and we can go up to 125000, 126000 ton, so, 75,000 ton additional capacity is available. So, that 75,000 ton capacity is going to give us roughly about 200 odd crores at current run rate. Aquapharm, in the current year only two months financials got consolidated. And we believe that Aquapharm on a full year basis is going to add another 250 to 300 crore. Now, if you do the simple math and if you add these numbers. And I am not considering anything on the efficiency side, like yield improvement or operating lever at PCBL. if we simply add up these numbers to our current year performance, then we are already looking at EBITDA of around 1400- 1500 crores. So, there will be enough cash generation not only to support our growth plan, but also to manage our debt servicing obligation. If that was your question. Your voice was not very clear,.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.

Aditya Khetan: Sir, my first question is, in this Tamil Nadu plant off 90,000 ton. So, we are planning to commission this by Q2 so, we should factor in volumes from second half of FY26?

Raj Gupta: It will come in two phases Aditya. The 1st Phase will be around 30,000 tons, which should be ready by the end of this year or maybe the 1st Quarter of next year. So, that capacity will be available for the full of next year, the 60,000-ton capacity will come around third quarter or 4th Quarter of next year.

Aditya Khetan: Okay. And so you are talking on to Greenfield expansion. So, you highlighted that the CAPEX could be in the range of 900 to 1000 crore. So, that is the estimated CAPEX as of now?

Raj Gupta: Like we said that we are yet to do with the final workings on the size, on the specification, the technology that we are going to use there, and also the location. So, this is very sketchy currently, but typically in carbon back, 150,000 tonnes is considered as a normal economic size plant. And therefore, we took cue from Tamil Nadu capital expenditure and therefore these numbers. But exact numbers will come back to you once we have done the math, et cetera.

Aditya Khetan: Got it. Sir on to the Aquapharm, I believe we have not shared any sort of breakup, so what is the breakup of capacities into Phosphonates and the Green Chelates agents. And then what are the utilization level currently, currently and what we are targeting for next year?

Kaushik Roy: The Aquapharm as I mentioned a while back, there are three, four major products, the biggest one is Phosphonates which is 60% plus and in Phosphonates they are global leader you can say, there's one company from Italy and this Aquapharm. And then other than that, they have oil and gas chemical which is produced in USA and then Green Chelates and polymers which is produced again in India. Now at this point of time in India, the capacity is not fully utilized, our 1st target in India is to utilize the full capital. For example, last year FY24 we were somewhere



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around 55% capacity utilization and we are hopeful that in this year we will be going beyond 80% for sure, maybe closer to 90% capacity utilization. And as Mr. Raj Gupta said a while back, in USA the capacity is already fully utilized. And we are going for capacity expansion over there by spending CAPEX. So, this is the situation as of now.

Aditya Khetan: Okay. And sir like as sir has mentioned that the estimated EBITDA from the Aquapharm is 200 to 300 crore in FY25. So, sir subsequently, what is your estimated PAT for FY25 and FY26?

Raj Gupta: We don't want to talk about FY25 numbers and also this 200-300 crores, these are broad indicators, because we are yet to look at the market condition, et cetera, et cetera..

Kaushik Roy: Give us some time, you will see substantial improvement in performance of Aquapharm vis-à-vis what they did in the past in different times. But as far as numbers are concerned give us some more time to get back to with more accuracy.

Raj Gupta: Yes, that number was basically extrapolation of last few months, those numbers will be consolidated in FY24 Financial. I just gave an extrapolation of that..

Kaushik Roy: Yes, so that cannot be the exact fair calculation or the right way to look at it. We have already started taking lot of initiative, both in India as well as in USA focusing on full utilization of capacity, focusing on new product development, focusing on cost control and cost reduction initiative across the whole organization, particularly in the area of say manufacturing, procurement, logistics, et cetera. So, number of areas we have started focusing on, so give us some time, I am sure the results will be very positive and all of you will appreciate I am sure.

Aditya Khetan: Got it. Sir just one last question sir, on to the carbon black capacity expansion. Sir, is there an estimated figure how much expansion is coming in India for next year and for the subsequent year, and will this expansion put any pressure like onto the supply side, if supply goes beyond demand, so we have to be dependent on export, some markets like Europe, where we have a lot of potential?

Kaushik Roy: It is not about just expansion of others. The largest expansion is obviously happening with us now, in India as you are aware of the Chennai plant. There are some expansion planned by some other companies, I am not giving too much detail on that, but because of obvious reasons, but at the same time, other than Indian market our focus has been on international market for some time, while as a responsible and the leader of the market in India, it is important that we take care of our customers interest in India first, which we are definitely going to do and will continue to do so, at the same time we were looking at international markets in a big way. As, I mentioned during the opening remark almost 40% of our production goes out today to international market. So, that shows, and we have started putting all the building blocks in terms of having logistics system, in terms of having warehouse, our own offices so that we can do local invoicing, our own people from technical and commercial side so that they can engage meaningfully with our customers over there, overseas customers. So, it is not that we will go away from Indian market,



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we will not, we will remain the leader in Indian market. At the same time, we will be growing outside India in a big way. And that's why we are adding so much of capacity. I don't think there will be any major pressure on us here in India.

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

Sanjesh Jain: So, first on the Aquapharm, I know you did mention that this quarter is not a representative one. But, what has gone wrong, it is general weakness in the chemical business, the transition, that's number one and number two, what are we fixing in terms of leadership in the Aquapharm that would be one key area to watch because promoter will be moving out of the business. So, we need a leader there. So, what is the thought there, and number three. How is the competitive intensity in that business now that phosphorus prices have also fallen and the ease of procuring phosphorus is there versus what it was, say a year and a half back, how are we looking at this business and what will drive the turnaround?

Kaushik Roy: Okay. So, about the numbers last two months, and naturally it was a bit disappointing, to be honest, it was not very encouraging, and we are not looking at that kind of number so that's why we are disappointed. The reason I will say is a mix of things, as you rightly said the market was not really good, chemical was at its lowest possibly last year. So, that is one of the reasons. The other reason is obviously, there were kind of internally they are planning to sell this company also there was a lack of focus. Honestly, there is lack of focus on the operation and the efficiency and other parameters. So, they lost sight on the business to be honest. And as you also rightly said, that it was a promoter driven company, there were the MDs and Joint MDs, et cetera. And they lost focus, because they were in a mood to sell it off. So, naturally, it impacted the whole organization, they unfortunately also ended up with one problem, which was possibly because of lack of focus, they ended up with a very high inventory at a high cost inventory of raw materials, because of maybe poor planning it happened, and eventually they had to liquidate that at a very low price in terms of sale price and made huge losses there. So, combination of reasons, these are the basic things now. Now, let us look forward, what is the point in mulling over this whatever has happened, promoters are already out of this by the way, they are not involved at all in this business at all at this point of time, all the decisions are taken by us the us at RPSG basically right. And as far as Aquapharm team is concerned, it is in terms of skill and capability as it is quite decent, maybe some difficult, some areas not so good, some difficult calls we might have to take or rather we have started taking already to bring in right kind of skill, and right kind of competency there. So, that has started happening already. Going forward, we will also be looking at a business head to take care of the entire business, we are already on the search. And in next two to three months' time the person should be in place. So, these changes are happening in the team, at this point of time, the team from PCBL who are kind of interpretation over there, to look at various aspects of the business, I am personally spending a lot more time on Aquapharm to ensure that we are able to get right kind of strategy, devised right kind of strategy and set right kind of direction, and action plans and then drive it very hard. We have also engaged



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McKinsey to help us in the journey, the initial journey to define the roadmap as we go along. And because of this reason, we feel very confident and I talked about primarily, three, four critical areas. The one is utilization of the full capacity. One is new product development, like better portfolio. Third one is efficiency at all different functions, especially in procurement, in logistics, and in manufacturing you just talked about yellow phosphorus, yes there are changes in the pricing, and we should try and get benefit out of that. So, these initiatives are already in place. And also we are trying to drive a culture of performance over there and aligning it with PCBL in terms of the KPIs and all. So, this is what it is, I will say that FY25, which is the current financial year, will be more of a transition. But, I am sure we will get to see some good improvements in the numbers, in the performance. And the potential is really, really, really high for this organization Aquapharm.

Sanjesh Jain:

Fair enough sir, that's really an elaborate and really appreciate that answer. Second on the carbon black side. What kind of volume growth are we looking for say next two years because it appears that we are adding close to 1,10,000 metric ton additionally, both Chennai and Mundra. And then we are looking at say another 200 metric ton in a green field. So, we are adding 300KT on a base of 800. So, that should come in next three, four that will be a fair assumption?

Kaushik Roy:

I think so, what you are saying is right, because we are already about 770 at this point of time. And as Raj already mentioned that 90,000 already the work has started and will be coming in two phases, Mundra further expansion is happening in specialty. And another Greenfield we are already looking at which will be in terms of size will be again somewhat like Chennai, 1,50,000 type we are looking at 250,000 to 3,00,000 tonnes addition. We are looking at maybe, 11% to 12% CAGR kind of growth. That's what we are looking at, we are looking at a fast growth. To be honest, we have a big ambition, and we are looking at a fast growth, we will continue to remain leader in India we will not vacate that position for sure. That remains, but we want to grow quickly in international markets if you look at our numbers, over the last couple of years, you will realize that earlier in terms of international market we were just about 30% roughly in terms of export, and today we have already started hitting 40%. So, that shows the intention very clearly that we are becoming more and more a global player with a presence across the globe.

Sanjesh Jain:

Got it. Last bit on China competitive intensity, on the China side, how is the competitive intensity from China, it still remain benign?

Kaushik Roy:

It is blow hot, blow cold, sometimes it is very active, very aggressive, and they start dumping at times. And sometimes they just disappear, but it is good for us, I will tell you the reason, the customers have lost confidence in them in the past. They look at China as a kind of fly by night kind of characters. So, sometimes they come in, sometimes they go out, at their convenience. And the reason only is known to them, nobody else knows the reason really. Which in a way helps us because customers get much more confident with companies like us who kind of believe in long term strategic relationship rather than spot transactional relationship. It helps us and as far as the numbers and the competition in terms of technology, in terms of productivity, yield,



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et cetera. We are one of the best in the world so why should we bother about China at all. We have enough players to play.

Moderator: Thank you. We have our next question from line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Sir, just one little bit more on this Aquapharm and I have no doubt, you are seeing some really big opportunity in this business and the segment. And that's why we paid this much amount, whatever we have paid and I am sure you will be able to generate a very good return over time. Just wanted to understand in the past good, whenever in a good time, what type of EBITDA margin or EBIT margin Aquapharm was able to do. And I am sure with your efforts and improvement, you will be getting those numbers again, so something on possibilities to talk?

Raj Gupta: Okay. If we leave aside FY24 then in the previous three years they were operating at about 20% and this was when they were operating at around 60%- 65% capacity utilization. So, certainly there is significant operating leverage which is available. And we have reasons to believe that, the market has bottomed out already. Things have started looking better, both in terms of demand and also pricing. So, starting from current year, possibly realisation and margins will move up.

Sunil Kothari: Okay. So, their capability to generate revenue is roughly about 2000 crore over at time with your efforts and some balancing and all?

Raj Gupta: You are talking about revenue?

Sunil Kothari: Current year.

Raj Gupta: No, so they achieved 2000 crore revenue in FY23 with just about 60% capacity utilization. So, like I said that there is significant upside and also we are adding new products, we are adding new capacity now, especially in US which is currently sold out. So, certainly there is significant scope both for top line and bottom line to move up.

Sunil Kothari: Great. And sir just last question, over a time will be also able to generate EBIT margin which we are generating in our carbon black and specialty chemical business, that hope is or expectation is justifiable, maybe over time?

Raj Gupta: Yes, in terms of chemistry, it's a little more complex chemistry and therefore, it should attract better margins compared to our conventional business. Our business is primarily, though we have now created a large value-added product portfolio, but still almost 60% of our volumes come from kind of foundation grades, like tyre grades, as compared to that Aquapharm portfolio which contains specialty chemicals, which are more complex to manufacture. The market is very niche and we believe that, with proper kind of tailwinds, et cetera, or maybe absence of headwinds, the company should perform much better than what it is performing now.



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- Moderator:** Thank you. We have our next question from the line of Krishan Parwani from JM Financial. Please go ahead.
- Krishan Parwani:** Firstly, on the Aquapharm you mentioned on inventory liquidation. So, if it had not been there, what would have been EBIT of Aquapharm for this two months, because in the press release you have mentioned EBIT for this chemical, this is only the Aquapharm right?
- Pankaj Kedia:** We have already said that post acquisition this was only two months of operation since when we have taken control. And the market has been dropped last year. So, post the liquidation of the high-cost inventory etc., today, the way we are looking forward is, how to align Aquapharm with our growth vision, the capacity utilization is low, that is a fact. And the markets have bottomed out in terms of chemicals is what we believe so, the whole thing the way we are looking at is, how do we grow the business this year. And we believe that this year we should be able to grow it nicely with higher capacity utilization, and more customer acquisition, plus we are looking lining up our launch of a large number of new products in our category. So, this will drive growth from this year onwards. So, this is how we look at.
- Krishan Parwani:** Understood. So, basically whatever that was, things should normalize and probably as Raj you mentioned earlier about, it can go, EBITDA can go up to 200 to 300 crores or even higher basis the utilization is that correct?
- Raj Gupta:** Yes, business should perform better. We are seeing better market conditions currently, FY25 should be better than FY24.
- Krishan Parwani:** Understood. And secondly, two bits firstly on the working capital side, and then how do you see the overall working capital cycle with the inclusion of Aquapharm?
- Raj Gupta:** Aquapharm currently has an operating cycle of about 90 days, which is high. Part of that is also because of their sourcing from a country which is landlocked, and therefore it takes more time to bring in material to India. We are looking at alternate geographies for this and also there is scope for improvement on receivables and payable terms. It will take us some time, but we are taking measures, and of course the market condition is also not very conducive currently. So, maybe gradually, over the next couple of years, we will try and squeeze the operating cycle to somewhat lower number.
- Krishan Parwani:** Understood. So, maybe on a consolidated basis, 70, 75 days is the right number to look at?
- Raj Gupta:** It is possible, though there is no industry benchmark. It's a very niche industry. In India, there is no like-to-like business. But typically, what we have seen in chemical is that 60 to 70 days is common in chemical industry. So, yes, there is scope.



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- Krishan Parwani:** Noted. And just on the continuation on that. On the debt front, where do you see the debt from let's say currently, the gross debt is 4700 crores, if I am not mistaken so how do you see it in FY25?
- Raj Gupta:** See, immediately next one year time, debt may not go down. Though the ratios would improve because we will be generating better EBITDA and our equity will also go up with increase in profitability. So, our ratios would improve, but with the kind of growth plans that we have, our absolute debt number may not go down significantly.
- Moderator:** Thank you. We have our next question from line of Rohan from Nuvama. Please go ahead.
- Rohan:** Sir, first question is on our CAPEX plans and capital cost of putting a new Greenfield plant which you just mentioned that maybe in next year onward we will start looking at a further Greenfield CAPEX. So, what is the ideal CAPEX cost now for the carbon black plant?
- Raj Gupta:** Carbon black brownfield capital cost is typically around Rs.50,000, Rs.55,000 and Greenfield it is about a tad higher maybe around roughly Rs.60,000 a ton.
- Rohan:** Okay. So, sir in terms of our ambition to keep on growing this business in terms of carbon black, and you mentioned that we are also looking to capture a higher share in the European export market So, if I look at this over next maybe two to three years, three to four years in slightly longer term. So, how much capacity you think that the company you have planned to add and the CAPEX for that at Rs.50,000, Rs.55,000 per ton, does it justify the margin profile, current margin profile justifies the ROC you will be looking from that angle or you will first put the capacities and then expect the margin to ramp up slowly?
- Raj Gupta:** So, first of all when we take a CAPEX decision, this is based on the payback period and we normally don't consider investment unless we see a less than five years kind of a payback. Even Tamil Nadu for that matter, if you look and how it has performed in the first year. The capacity came up in phases in 2024, and yet we could utilize to the extent of 55%. So, we do a market assessment and then we take investment decisions based on what is going to be the payback period. Next two to four years period or rather, I would talk about maybe period up to 2030, our assessment of the market is that we are in a long-term growth phase. There's a lot of consolidation which has happened in different parts of the world. And which has created a very large and long-term growth opportunity. We believe that every year we will have to keep adding between 80,000 to 100,000 tons of additional capacity going forward, part of it will come through brownfield, part through Greenfield. We are acquiring land adjacent to our plants, we are also planning to acquire more land with government help where we want to put our Greenfield plant. That's our growth strategy.
- Rohan:** Okay. Sir, second question is now related to Aquapharm. So, though I understand that in recent timeframe that there will be some high cost inventory liquidation and weak industry dynamics, but in general now since the significant time have occurred acquisition of this Aquapharm. So,



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now in your understanding the business dynamics of this Aquapharm what are the sustainable margins and growth profile you think that the company can have over the next two years to three years' timeframe and will it require further investment or CAPEX because right now utilization levels are low, but after achieving at 70, 80 utilization we see that there is a further CAPEX opportunity, what are your game plan related to Aquapharm?

Raj Gupta:

So, like we said that India currently has some capacity cushion. So, India we are not looking to do any significant amount of CAPEX, US is currently running at almost full capacity and therefore, immediately we are planning some capacity increase there. With respect to the margin profile, like I said, except 2024, if we look at the previous three, four, five years, generally this business was generating about +20% kind of EBITDA. And that was with around 60% capacity utilization. So, at a higher capacity utilization, operating leverage playing its own role, there is significant cushion for the margins to go up. Having said that, it's a new business, we are still trying to integrate it with our businesses efficiently. And that will also play a role. The synergies between the two businesses and the best practices that two businesses have developed even that is going to create some benefits for both the businesses. So, give us some time, maybe two, three quarters later we will be in a much better position to comment on what kind of margins can be achieved, but we are very hopeful about performance of this business.

Rohan:

Okay. And sir from the balance sheet point of view, so currently definitely we are running in a very, tough, I will not say that favorable scenario. But yes, still leverage balance sheet is probably we have not seen in many years, the company and so, the current year you mentioned that the debt may not come down, but I am just looking from next two years, three years perspective, the limited cash flow generation and limited free cash flow generation so, to repay the debt, because you still have a greenfield ambition also in terms of PCBLs carbon black business as well that may another 500, 600 crore including, for the top of the working capital, even the Aquapharm is also looking at the growth so, working capital requirement will remain quite high. So, just wanted to understand that the balance sheet situation you are quite comfortable living the debt level, what we have right now continuously remains there in the same ratio for next two to three years as well or you will try to bring it down by any way so that in any tough situation or any unforeseen industry scenario, we are not stuck with the leverage balance sheet?

Raj Gupta:

Two -three things there. One as a matter of our policy, we our debt averse. All through last 10 years, we constantly kept on repaying our debt and brought it down to almost negligible level. We hardly had any long-term debt on our books. And that remains our philosophy. We are not comfortable with any level of debt, leave aside the current level of debt. Having said that, the current market conditions offers significant opportunity, both for organic and inorganic growth. And just for the sake of avoiding debt as a matter of policy, if we compromise on growth, that would not have been a right strategy. And therefore, the debt that currently we have. Also, with all this capacity addition and new business acquisition, our potential to generate, higher cash from operations, is increasing every year. Between last year and this year also, if you look at the consolidated EBITDA numbers, the FY23 we did Rs.775 crore of EBITDA and this year we



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have done around Rs.1075 crore so it's a significant 39% kind of a jump in EBITDA and we remain optimistic about return on our new investment, both in organic space as well as inorganic space. So, from that perspective, with the potential of returns that we can generate, the debt that currently we have on our balance sheet, is not much.

Rohan: Just last bit from my side, so sir in last four to five years, we have seen that our margin profile and EBITDA base has been improving and now have gone to roughly Rs.17,000, Rs.18,000 ton. Still not sure whether these are the margins which are going to remain there because if you look at Rs.17,000, Rs.18000 EBITDA per ton and the CAPEX of brownfield is close to 50,000 to 55,000 tonnes, I think that there is still case for other players to add the capacities and margin may in future come under pressure if the capacity increases. Or do you think that these are the new industry norms and margin profile is going to get petered here and unlikely to go below Rs.17,000, Rs.18,000 in any near future?

Raj Gupta: See, market and business go through cycles. All industries go through cycle, our industry will go through cycle, we understand that. But we don't focus on market conditions and our focus is primarily on how to improve our efficiency, how to improve our product portfolio, and how to increase our market share. How to ensure that we continue to retain our capacity utilization at a higher level. And those are exactly the few things which have helped us in last few years to maintain good financial performance across different kind of industry situations. And that gives us confidence that even when capacity is getting added by other players and temporarily there is oversupply, then also we can maintain our margin. In fact having spoken about surplus capacity, in last 3years, India has added almost 600,000 tonnes of capacity and which was 60% of its previous capacity... this addition was almost 60% in magnitude. So, markets were over supplied during last two -three years. Yet if you look at our performance, we have constantly improved and that is because of our ability to move between markets, our ability to introduce new products and also to continuously improve our operational efficiencies. I'm not commenting on whether we will be able to improve this margin from here or it will go down, market may have conditions, but we are very confident about our own initiatives.

Moderator: Thank you sir. We have our next question from line of Atif from ICICI Prudential. Please go ahead.

Atif: Sir, just one question on the balance sheet, one is goodwill and the other is the intangible assets. So, goodwill is fine 1160 crores but if you can just help understand what exactly is this 2001 and 66 crores of intangible some breakup or some color and what these intangibles are?

Raj Gupta: Okay. So, as per our Indian accounting regulation, when we acquire a business at a value which is higher than its net worth, then the difference is allocated to different intangible assets. So there's a fair valuation of tangible and intangible assets and which is done by a certified valuer. In our case Deloitte has carried out this valuation. So, what has happened is, in the process of fair valuation of assets of Aquapharm, intangible assets got created like technical knowhow,



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their IP, their customer relations, these are all tax deductible. So, there will be amortization of these assets so over a period of 20 to 25 years, goodwill of course, this is not amortized, it is tested for impairment. But all the other intangibles which get created, they carry tax benefits and with the kind of intangible valuation that this business have been able to get, there's a good potential for some 500 -600 crore kind of tax savings going forward.

Atif: Sure. So, basically you are saying this 2000 crore will not get amortized, but you are saying we will test for impairment basically, and basically more or less this is more of technical knowhow, the transaction related goodwill is 1100 crores, but this is their separate which was there on the books of Aquapharm basically?

Raj Gupta: No, so what happens is, in fair valuation, whatever allocation can be made to specific assets, tangible and intangible, that is first made and the residual value appears as goodwill. Now, goodwill is tested for impairment every balance sheet date, but the rest of the intangibles have a amortization period. So, this 2200 crore worth of intangible assets will have an amortization period of 20 to 25 years. There are a number of intangible assets which have different amortization period.

Atif: Got it. So, basically we have to amortize this 2000 crores over a period of time?

Raj Gupta: Correct. It's over a fairly long period 20-25 years. And goodwill, we don't expect goodwill impairment to be there.

Atif: That's okay, goodwill I understand.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your line.