



“Oriental Carbon & Chemicals Limited Q1 FY16 Earnings Conference Call”

August 04, 2015



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Moderator: Ladies and Gentlemen, good day and welcome to the Q1 FY16 Earnings Conference Call of Oriental Carbon & Chemicals Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akshat Goenka, Promoter & Joint Managing Director. Thank you and over to you Mr. Goenka.

Akshat Goenka: Good evening and a very warm welcome to everyone. I apologize for the slight delay due to technical difficulties. Along with me I have Mr. Anurag Jain, CFO and SGA our Investor Relations Advisor. I hope you have received our results and investor presentation by now, for those who have not you can view them on our website.

It gives me immense pleasure to inform all of you that to meet the growing demand from the tyre industry we have decided to expand our capacity from 23,000 metric tons per annum to 34,000 metric tons per annum at our existing Mundra plant over the next three years. The additional capacities are 11,000 metric tons will be executed in two phases of 5500 metric tons each. The capital investment will be around Rs. 159 crores, which includes Rs. 7 crores for working capital margin and it also includes the CAPEX of Rs. 15 crores for our Coal Fired Boiler which will result in savings of approximately Rs. 1.5 crores per line in Mundra from April 16 onwards. The first-year savings will be felt in the existing two lines already operational, then the third and finally in all four lines. The expected project IRR is in excess of 25% with a projected payback of around four years.

The first phase of 5500 metric tons per annum is proposed to start by April 2017 followed by the second phase in April 2018. This project will be funded by mix of loans and internal accruals with a debt equity ratio of 2:1. With the help of his new unit we will be able to serve our existing customers better and strengthen our footprint in North America which we have recently forayed into. It will also help us to be a part of India's rapidly growing market. Recently a statement from Michelin while announcing a ramp up operation at Chennai mentioned that they see the radial market growing at 14% in India. Thus the new expansion will help us grow faster and increase market share in North America as well as tyre companies where our share is in single digits.

Before we move on to the financial section, let me brief you on the industry drivers which led us to our expansion plan. Global demand for insoluble sulphur is expected to grow by about 3% flat. As you all know, the tyre industry has planned large CAPEX programs some of which is expected to come online during this financial year. According to ICRA the domestic tyre industry is currently witnessing investments on projects worth over Rs. 56 billion. This huge investment done by tyre companies is majorly to increase the level of a radialization in India. Just to remind you radial tyres consume double the amount of insoluble sulphur as compared to bias tyres. Thus this gives a positive outlook for the demand of insoluble sulphur for the next few

years as the tyre industry is expected to witness strong growth. In this growing industry scenario OCCL is ready to leverage its manufacturing capabilities, brand, long-term relationships with domestic and multinational companies and strong sales network across the globe.

Now I would like to hand over the line to Mr. Anurag Jain to update you on the operational performance of the company.

Anurag Jain:

Thank you Akshat. I will take you all through the financials of the company. Revenue for the quarter 1 FY15 is Rs. 72 crores a growth of 6.3% on year-on-year basis compared to Rs. 68 crores in the corresponding quarter last year. Growth in revenue is mainly attributed to volume growth both domestic and export.

For the quarter ended June EBITDA stood at Rs. 23 crores compared to Rs. 19 crores in Q1 FY15, a year-on-year growth of 18.4%. EBITDA margin improved to 30.9%. The improvement is on the back of lower power and fuel costs which is expected to come down further post extension and also due to operational efficiency mainly due to increase in utilization of existing capacities besides in-house efforts in this regard.

Depreciation during the quarter is higher by Rs.1.41 crores due to provision for depreciation based on useful life of significant components of plant and machinery as per the provisions of Companies Act, out of which Rs.0.77 crores pertain to depreciation on pro rata basis up to 31st of March 2015. Profit After Tax for Q1 FY16 is Rs. 14 crores compared to Rs. 10 crores in Q1 FY15, a year on year growth of 44%. Net profit margin for the year is 19.5% as against 14.6% in the corresponding quarter of the previous year. The rating of the company by ICRA has been upgraded from (-)A to A recently in July.

With this I would like to open the floor for question and answers.

Moderator:

Thank you very much. We will now begin the question and answer sessions. The first question is from the line of Deepak Kole from HDFC securities. Please go ahead.

Deepak Kole:

What was the utilization rate during this quarter?

Akshat Goenka:

Utilization rate was quite good during this quarter but we will not give out exact numbers on capacity utilization. It was higher than the previous quarter I can tell you that much.

Deepak Kole:

Can I get some update on how was the performance from the pneumatic and automotive segments in this quarter?

Akshat Goenka:

That will be too premature to answer because Board meeting is scheduled for this week so it will not be correct on my part to make statements before the Board meeting.

Moderator:

Thank you. The next question is from the line of Vipul Shah from Networth. Please go ahead

- Vipul Shah:** Your raw material cost has come down both on your QoQ basis and YoY basis. So any update on that and it is likely to sustain?
- Anurag Jain:** The raw material cost has been equal to the same quarter in the previous year.
- Vipul Shah:** Percentage of your sales the raw material consumed has come down from 30.9% to 28.8% so almost 200 bps improvement.
- Anurag Jain:** You are talking of the same quarter the previous year. Yes that is true the raw material cost has come down since then because the cost of sulphur as well as oil has come down.
- Vipul Shah:** Is it because we also procure sulphur from the refineries we are able to procure at a better rate?
- Anurag Jain:** No it is a global trend, with refineries what the situation is that they sell at a predetermined rate, so what is happening is that sulphur as global trend has come down.
- Vipul Shah:** Why our tax rate has come down on this quarter?
- Anurag Jain:** We are still enjoying the tax holiday
- Akshat Goenka:** I will add one more thing to this I recommend that tax you should look at year-on-year basis not on a quarterly basis. So what happened is maybe we have more profit from the SEZ division in this quarter as opposed to Dharuhera factory that's why it is shown like this. But you should look at it on a yearly basis.
- Vipul Shah:** One last question up to what capacity utilization we can go on our plant, can we go up to 105% and 110%?
- Akshat Goenka:** As with any chemical plant from 100% is not a hard 100% in the sense if things go smoothly it can go a little bit above 100%.
- Vipul Shah:** We have a capacity to grow at 8-10% both for FY16 and FY17. If I say like that.
- Anurag Jain:** You are talking top line or talking quantity?
- Vipul Shah:** I am talking of volume growth.
- Akshat Goenka:** No, I don't see 10% and then 10% because our capacity will kick in April '17 so we will not have a top line growth of 10% and 10%, however, bottom-line growth will be much better, bottom-line growth will be good.
- Moderator:** Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead

- Ritesh Gupta:** I just wanted to get a sense on what is your capacity addition plant because I understand that your sales growth is in a way directly linked to the capacity addition that you do. So what is the timeline in terms of next capacity addition and what sort of margin expansion or say sustainable margin trends which we can see in the business?
- Akshat Goenka:** See, 5500 tons will come on stream in April 2017 and then another 5500 ton will come on stream in April 2018. This will result in a 50% increase in our installed capacity in the next three years. And with regards to margin expansion naturally fixed costs will not be going up proportionately and that is reflected in the project IRR that we have declared because overall establishment expenses, salary, these are going to go up much less than proportionately so that benefit of scale will be accrued to us.
- Ritesh Gupta:** So what expansion roughly we can build in, say for example, last year you did about 29% margins in FY15 so 3-4 years down the line the margin what could be that number?
- Akshat Goenka:** I won't comment on the exact EBITDA margin going so far forward. We will look at more absolutely terms as opposed to these percentages. What I will say is that if you are saying last year was 29% the EBITDA margin on the incremental capacity will be much better. So then overall that will have an impact.
- Anurag Jain:** As you rightly pointed out Akshat, we don't look at EBITDA as a percentage of sales We look at the growth in EBITDA, we look more in absolute terms.
- Ritesh Gupta:** Sale growth in EBITDA, what do you exactly mean there, what is the guideline that you have there?
- Anurag Jain:** The sales per se is a factor of exchange-rate fluctuations and so many things so what we concentrate on is whether our margins per ton are going to be intact or not. For example, if we preserve our margins and the exchange rate comes down and the selling prices come down then there might be a growth in the EBITDA percentage of sales or vice versa. That is what I am saying, for example today \$ 2000 is the rate and it is Rs. 64, tomorrow it will become Rs. 60 the overall top line will come down. What we are saying is we concentrate even if the top line comes down or goes up our margins should remain intact.
- Ritesh Gupta:** Absolute EBITDA would remain the same non-selling by the....
- Akshat Goenka:** That contribution per metric tons will be much better for the incremental capacity.
- Ritesh Gupta:** Next question is that you have a good presence in the domestic as well as international business so your pricing in the domestic business is kind of import parity or is it something else?
- Akshat Goenka:** We cannot make a comment on that, sorry.

Ritesh Gupta: What I am trying to understand is your pricing in domestic as well as exports move hand-in-hand or is it delinked to some extent?

Anurag Jain: The Indian market is as much open and exposed to the international pricing trend as the international market. So as far as pricing is concerned the trend would be the same whether it is in India or international, because the competitor are international.

Ritesh Gupta: The last question from side, this Sulphur opportunity which you make what is the overall market size where how much penetrated you are, can you just give me a sense on that if possible? I understand there are lots of small-small players who are there in this business.

Akshat Goenka: That is not correct. There are not actually too many small-small players in this business. The overall market size is approximately 200,000 metric tons and when I talk about overall market size I include the kind of quality that we are manufacturing. Not some inferior grade. Now out of this 200,000 tons its practically three players who are Eastman Chemicals, approximately 150,000 tons is controlled by them and then we have approximately 23,000 tons and then a Japanese company Shikoku has the remaining. With regards to growth and penetration we can easily add another 10,000 to 15,000 tons by getting market share and tapping economies where we are not present. For example, North America is a market which consumes around 35,000 tons and we are just making nascent steps into it, so for us to get around 15% of that market is not such a big issue. So that's where there are other untapped large players there our market share in single digits. So to go up to 20% and double digits is not a big issue. So for our expansion we don't see any issue in ramping up capacity.

Moderator: Thank you. The next question is from the line of Govindlal Gilada. Please go ahead.

Govindlal Gilada: I have got two questions, one is on tax rate, full year how much tax rate will be there?

Akshat Goenka: See, we are MAT paying company, the exact tax rate is dependent on the profits of our respective divisions one being the SEZ division and the other being Dharuhera division. It is very difficult to predict exact tax rate.

Govindlal Gilada: In our presentation we are seeing your projected growth for our industry it comes to around 4% annualized growth if I am right?

Akshat Goenka: 4% of?

Govindlal Gilada: Volume growth we are projecting 4%.

Akshat Goenka: No, we are projecting much higher than 4% for our company.

Govindlal Gilada: For next five years something you have projected 24-25%?

Akshat Goenka: I think you are talking about the world global demand, there is some confusion.

- Govindlal Gilada:** Sorry, so that is world global demand.
- Akshat Goenka:** We are going to grow in double digits in the next 4-5 years, our CAGR for bottom-line is going to be well in the double digits.
- Govindlal Gilada:** So we are talking about volume growth also in double digits?
- Akshat Goenka:** . The bottom-line growth will be higher than whatever the volume growth is.
- Govindlal Gilada:** If I am right you mean to tell top line volume-wise we will grow double-digit and bottom-line correspondingly we'll grow more.
- Akshat Goenka:** , whatever the top line growth is, the bottom line will be correspondingly more.
- Anurag Jain:** When we say double digits it means over five years the growth will be double-digit not in the next two years in the top line because next two years we do not have the capacity for top line growth of double digit.
- Akshat Goenka:** Yes, I was talking about CAGR.
- Anurag Jain:** Compounded annual growth rate over the next five years.
- Govindlal Gilada:** Five years cumulative you will have a CAGR of double-digit growth?
- Akshat Goenka:** Sorry, I didn't get you can you please repeat?
- Govindlal Gilada:** It is not clear, you mean to tell that next after once capacity comes will be more and next one or two years it will be little less, is that you mean to tell?
- Akshat Goenka:** Yes, as far as the top line goes.
- Govindlal Gilada:** But bottom line will be better?
- Akshat Goenka:** Yes bottom line growth will be good, next two years also it will be good.
- Govindlal Gilada:** Bottom line margins for what reasons it will be better on incremental capacity?
- Akshat Goenka:** Operating leverage because when you make more capacity growth then you sell more from the same cost, your fixed cost gets absorbed better. And in our business fixed cost is a much larger percentage, raw material cost is less.
- Moderator:** Thank you. The next question is from the line of Ritesh Vora from Incedo. Please go ahead.

- Ritesh Vora:** You mentioned about 50% volume growth in the next three years so that comes to around 15% CAGR rate, is that correct what I am thinking? Will this growth come at the back ended 2017-18 or we will see in the current year also some growth?
- Akshat Goenka:** Last year our capacity utilization was less than 100%. So this year and next year we will be growing on our existing capacity base itself. Then the new capacity will kick-in in April '17 and then again April '18. So when this new capacity kicks-in then the growth will be much more but even this year and the next year there will be some growth. Last year our base was lower than the capacity.
- Ritesh Vora:** So what percentage of utilization current level?
- Akshat Goenka:** Last year it was around 90%.
- Ritesh Vora:** So you can grow up to 100% you are saying basically?
- Akshat Goenka:** Yes.
- Ritesh Vora:** We have 2 products as per your presentation, one is the soluble Sulphur and another is sulphuric acid.
- Akshat Goenka:** I would like to correct, its insoluble Sulphur.
- Ritesh Vora:** Sorry, insoluble Sulphur and sulphuric acid, so what percentage is insoluble Sulphur and what is the percentage of sulphuric acid?
- Akshat Goenka:** Sulphuric acid is less than 10% that is why we are not declaring it any more separately
- Ritesh Vora:** What process is involved? Is this insoluble sulphur different from the common grade sulphur available from refinery?
- Akshat Goenka:** Yes, so we buy the common grade sulphur from the refinery and WE make it into insoluble sulphur.
- Ritesh Vora:** What is our sustainable EBITDA margin, if prices of Sulphur falls further will our margin improve or will it stay as it is?
- Akshat Goenka:** Based on raw material movement we never assume that EBITDA margin will improve or become worse so you should take this as a sustainable one. Even if sulphur prices come down I am not going to predict a higher margin.
- Moderator:** Our next question is from the line of G Vivek from G.S. Investment. Please go ahead.

G Vivek: What are the reasons for the improvement in margins this quarter and are they sustainable? How about the Euro hedging and any new OEMs done by us, approached by us? And how is the US market foray happening?

Anurag Jain: The margins have improved basically from the same quarter last year because of lower cost of power and fuel. You can see that power and fuel costs have come down. Then our cost of raw material has also come down and our other centers have not grown in the same proportion. So that will be our main for the increase in EBITDA margins. And as Akshat has pointed out earlier, the moment we increase the capacity utilization, the EBITDA margins tend to improve. So this quarter we increased the capacity utilization of the plant from the previous quarter as well as the immediate preceding quarter. That is why the margins have improved.

G Vivek: What about the Euro hedging? Any new OEMs which we have approached? Any new customers, OEMs which we have been able to crack?

Anurag Jain: We have been approaching new customers in America and we are getting successes there, so those successes are in various stages, in some places we have even got approvals so that is a continuous process that we doing but that is more on preparation for the next phase extension. As far as hedging is concerned we have a laid down policy of hedging a certain percentage over exposure on a monthly basis and we continue to follow that policy every month.

G Vivek: Basically the guidance for next one or two years, approximately how much can we expect?

Anurag Jain: We are currently not giving the guidance for the next two years.

G Vivek: But at least we are in comfortable situation, nothing to worry on the demand front at least. How is the Indian market operating? Indian market radialization is increasing and exports are also increasing and because of this dumping from China to US is it impacting us positively?

Anurag Jain: Indian market is growing and that is what we have been seeing everywhere that in the Indian market the demand for insoluble Sulphur is growing in double digits. The growth is by about 11-12% per annum.

Akshat Goenka: In fact in my speech earlier when I started off, Michelin has recently made a statement saying that radial tyre is growing in India at 14% and because of that they are also increasing capacity.

G Vivek: Dumping from China and US is it helping us out in any way physically are there many tyre groups like Good Year or and that Japanese company near Indore, they were exporting it from India all the tyres from here, so is it impacting us positively also?

Akshat Goenka: If we were a big player in North America it would have impacted us positively, but since we are not a big player there it doesn't matter it will help us later, will just basically help in North American tyre manufacturers.

- G Vivek:** Last question is about our subsidiary, Schrader Duncan basically what is the status over there and any value addition being added to us by this company, Schrader Duncan?
- Akshat Goenka:** What I can say about Schrader Duncan is this, it is a company which has two business lines, one is automotive valves line, that has been consistently making losses, the other is pneumatic valves line and that has been consistently making profits. And that pneumatic valve line is basically a play on the CAPEX cycle of our economy and as that's grow faster, it will be more profitable. As far as the automotive line is concerned we are soon looking at stemming the losses.
- Moderator:** Our next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.
- Sunny Agarwal:** Just wanted to understand our client concentration, if you can throw some light on how much contribution to our top line from top five or top three clients?
- Akshat Goenka:** That will not be fair on my part to answer, the reason I'll tell you, our industry is a very concentrated industry so there are only 5-6 big players worldwide, 4-5 big players in India so overall you can only target 25-30 people. So in this if I start telling you the numbers then it'll be putting too much information in the public domain. It is not an industry- where we have 100 clients and all that.
- Sunny Agarwal:** If you can give the break up geography-wise?
- Akshat Goenka:** 25% is with India and the rest is divided between Europe and Asia, with Europe having a slightly higher share.
- Sunny Agarwal:** Can you tell us how our sales contract work with all these tyre guys wherein the quantity of sulphur supplies fixed or annual or its fixed on an annual-monthly contract and how the pricing policy if you can throw some light?
- Akshat Goenka:** With one or two long-time associates we have yearly contract and with most of them it is on a quarterly or a six monthly basis. In our industry though the contract is signed on a quarterly or six monthly basis but once when you get a plan then you continue to supply under this, until and unless there is a problem.
- Sunny Agarwal:** Pardon me if I have understood right, the contract is usually for 3 to 6 months in terms of quantity as well as pricing or pricing is revised frequently on a fortnightly or monthly?
- Akshat Goenka:** This is a specialty business, the negotiations are very different from that of a commodity business, so you have a price, and then there may be tinkering based on other movements.
- Sunny Agarwal:** In terms of competition as you have told that usually the other top three players are mainly dominating the industry. In terms of differentiation how our company stands compared to other guys in terms of cost arbitrage or location advantage, anything you want to throw light on?

Akshat Goenka: First of all our home market is projected to become one of the biggest markets so that is one locational advantage we have. So practically speaking for Europe or North America, Latin America there are mainly two players So when we go to North America, we are welcome as a Company which breaks the dominance of a single supplier

Moderator: Our next question is from the line of Ayush Mittal from Mittal and Company. Please go ahead.

Ayush Mittal: In the opening remark it was said that the future expansion is going to be funded by debt equity ratio of 2:1, is that right?

Akshat Goenka: Yes.

Ayush Mittal: One thing which I see in the numbers of the company is that we are generating good amount of cash flows, cash flow would be around 55-60 odd crores per annum and the project cost is 150 odd crores which is going to come up in 2 to 3 years. So as we have so much of internal accruals why would we need to go for so much of debt or what is the plan on the cash flows going forward?

Akshat Goenka: One thing I would like to point out even though we are going to raise this amount of debt our total long-term debt is never really going to cross more than 100-110 crores because the existing debt is also going to be simultaneously paid back, so our debt equity ratios are going to be very much in control. Other opportunities would come up, so we want that flexibility.

Ayush Mittal: But as you already have 70 odd crores that means you won't have to do additional borrowing, I mean the absolute number if I look it won't be beyond more than 50 odd crores.

Akshat Goenka: What we are going to do as the borrowing will not be front-ended so we will borrow may be towards the later stages, so the interest burden and all will kick-in much later.

Ayush Mittal: I get that point, at the same time what I am trying to assess is with so much of cash flows coming in are we planning to do something else also, any diversification plans or something apart from this?

Akshat Goenka: Eventually we do want to do diversification but at the current moment there is no plan.

Ayush Mittal: At the moment we are just focusing on the expansion of this capacity which will take place in two or three years?

Akshat Goenka: Yes. .

Ayush Mittal: Any chance of debottlenecking or improving the production capability of the existing plants as the industry may grow we may see a lot of demand from domestic market itself over the next two years?

Akshat Goenka: That's an ongoing process, that is always on and you would have noticed if you evaluate since you have been an investor for a very long time, you would have over time seen the operational leverage of the company, how the power and fuel cost has also come down, so these things are continuous improvement.

Ayush Mittal: Like you mentioned power is a major cost for us, like it is quite a material cost, the boiler which we are going to put up will that help us substantially bring this down?

Akshat Goenka: It will help us to bring the steam cost down. As I mentioned in my opening remarks we estimate it will help us to the tune of around 1.5 crores per line. So when all four lines are there in Mundra that becomes six crores per annum.

Ayush Mittal: Six crores per annum and on line, as of now you have two lines over there?

Akshat Goenka: Yes, so from next year it should help us 2.5-3 crores

Ayush Mittal: Boiler will start I think in Q1 FY17?

Akshat Goenka: Yes, April 2016 the boiler will start, so one year you'll the advantage of the lines, three lines and four lines.

Ayush Mittal: There was a bit of a dip in the turnover when we compare to March quarter, the just gone by quarter, while in that con-call we had heard that the volume growth should be strong as there was a new set of a customer I think, any highlight on this?

Akshat Goenka: That is a very valid point. Now what happened if that some customer ordered more in March, so inventory had risen, as a result they rationalized. However, what I would like to point out at this stage is that if you analyze the P&L closely, you will see our production has been much better in this quarter because last quarter we had to dip into our inventory. This time the production has been much better, the operating leverage and costs have been better. If not for depreciation due to the new norms, bottom line would have been the same.

Moderator: Thank you. The next question is from the line of V K Kartikeyan from Suyash Advisors. Please go ahead.

V K Kartikeyan: I just wanted your perspective on two things, you made a point earlier about limited competition in Europe and USA. A couple of questions in this, one exactly is do you sell at a lower price and I am asking this as a regular trend and as a competitors strategy to your competitor who is very large or shall I put it the other way, do they charge a premium over your products, some perspective on this?

Akshat Goenka: There is no such policy and I won't comment on what happens time-to-time in the market.

V K Kartikeyan: But, what I am asking is generally are their products sold at a premium, Eastman's products generally sold at a premium?

- Akshat Goenka:** I cannot comment on that.
- V K Kartikeyan:** I was trying to understand what would be your entry strategy into the USA, so from that point of view?
- Akshat Goenka:** One thing you have to understand, you are totally dependent on one person and somebody else comes in then the pricing is also a function of what market share you have there, you have 20-25% market share then pricing becomes more important, however, if your share is single digit then for them you are more important because we need to keep somebody else alike because the guy there depending for 100% of the product can raise prices any time.
- V K Kartikeyan:** The construction timeline, is there a way you could compress this or is this the best time in which you can do your expansion?
- Anurag Jain:** This is the estimated time. Obviously we always strive to be better but we take it as April only.
- Moderator:** Thank you. The next question is from the line of Hemant Ashar. Please go ahead.
- Hemant Ashar:** Why we are extra conservative in putting up the capacity, that is not two lines at a time, we do not have any constraint on the finance or demand or any other side, any specific reason for that?
- Akshat Goenka:** Because we are a bottom line focused company so we go along with the market we don't want to chase the turnover and market share at the cost of bottom line.
- Hemant Ashar:** But it is taking 20 to 30 months, first line comes up after 20 months and second line comes up after 30-32 months?
- Anurag Jain:** So there is a gap of only one year for us to assume that we can sell 50% quantity in the first year itself. We were little bit of extra ambition so what we feel is that we pace our expansion based on the expected quantity that we would be selling from that year-to-year, so there is one year delay on the second line based on that expectation.
- Moderator:** Thank you. The next question is from the line of Jatin Jain. Please go ahead.
- Jatin Jain:** I just have two queries most of them have been answered. First is in terms of expansion, where are we right now in terms of construction? Do we have all the approvals and the detailed engineering and the financial closer in place?
- Akshat Goenka:** Firstly, I would like to point out that we generally await Board approval, then only can you start construction, then only can you go for financial closure, so these activities will now start and the timelines that we have announced are keeping all these things in mind. And I am sorry what was the second part of your question?
- Jatin Jain:** Since it is a Brownfield expansion, I want to understand in terms of approvals and all.

- Akshat Goenka** All the approvals are at place except one small approval that is in the process that will come within the month of August. There is one out of five approvals which is pending, it will come in the month of August, it is in process.
- Jatin Jain:** The second question was can you throw some light on the trend of the insoluble sulphur in terms of the price movement over last one year or maybe last six months, how stable it is?
- Anurag Jain:** It has been stable, stable in Euro terms or Dollar terms, so when you look at Rupee then you have to take into account the FOREX part of it.
- Jatin Jain:** It has no correlation with the sulphur prices?
- Anurag Jain** It is not a direct correlation.
- Moderator:** Thank you. The next question is from the line of Rajat Sethi. Please go ahead
- Rajat Sethi:** You mentioned that there will be operating leverage and hence top line might not grow as much but bottom line definitely will grow. Can you please point out the couple of major sources of operating leverage, like what cost items will actually will be....
- Akshat Goenka:** If you go from the P&L, employee benefit expense, other fixed expenses as they will not grow proportionately , and to some extent power and fuel.
- Rajat Sethi:** There is one more question around the same thought, say hypothetically if we reach 100% capacity in FY16 so we will be operating at a similar capacity utilization in FY17 because there is no more capacity going to come until April '17. So we have achieved a certain level of operating leverage in FY16 itself because of 100% utilizations, do we still see more of operating leverage kicking-in for FY17?
- Anurag jain:** Since there are only two points, one is there will be some benefit coming in from the Coal Fired Boiler. First of all we are assuming that the full utilization will take place over this year and the next year. Secondly, even if full utilization were to happy this year, the Coal Fired Boiler is kicking in next year, so that will give us some benefit but we are giving full utilization over two years, this year and next year.
- Rajat Sethi:** One more question, so say because we have a good enough exposure to European markets can you please comment on any probable impact on us because of any Euro crisis that might happen?
- Akshat Goenka:** This impact we have in today's results are after the Euro crisis. The Euro has crashed, it used to be in the 80s now the early 70s, late 60s. The demand is as down as it can be even after those events this is the P&L. So I do not see it going down any further than this.
- Rajat Sethi:** Last question, we have been trying to get on board Michelin, any update on that?
- Akshat Goenka:** I do not want to comment on individual customers like this.

- Moderator:** Thank you. The next question is from the line of Sneha Tulsyan from Karvy Capital. Please go ahead.
- Sneha Tulsyan:** How much time this new capacity will take to reach 100% capacity utilization levels, like the one which will get commissioned in April '17 onwards?
- Akshat Goenka:** I will not want to reveal our exact ramp up plan because that might impact us in the market, when I say market I mean our customers, however, what I will say is that the IRR that we have projected and the payback period that we have projected, is after factoring-in the kind of ramp up that is feasible.
- Sneha Tulsyan:** Four years will be fair to presume?
- Akshat Goenka:** I expect payback in four years. I said the payback is four years and I said the project IRR is (+25%). Now when we have calculated these numbers we have taken a very realistic ramp up.
- Sneha Tulsyan:** So for my understanding in FY18 it would be approximately if you can tell?
- Akshat Goenka:** No, I won't comment.
- Moderator:** Thank you. The next question is from the line of KS Batra from Accurate Equipment. Please go ahead.
- KS Batra:** I have a query on your subsidiary that is Schrader Duncan, when you feel that the company will turn around?
- Akshat Goenka:** I feel that from next year we should stop the losses, within this year we will do whatever we need to do to stop the losses so from next year I don't think we will have any losses.
- KS Batra:** But in earlier years this company was doing quite well, what has gone wrong actually in last few years?
- Akshat Goenka:** As I said that that company has to be looked at from the lines of two businesses, one business is dependent on the CAPEX cycle of the economy. Earlier when CAPEX cycle was doing well, that was doing better today. Today also its still profitable but last year the CAPEX cycle has been down and as far as the other automotive is concerned its increased competition.
- KS Batra:** We have this tyre valves, tyre tube valves is it the same product like Triton valves?
- Akshat Goenka:** Yes Triton, it's the same product.
- KS Batra:** What's our market share in that?
- Akshat Goenka:** I will not give out the market share.

- KS Batra:** But comparatively Triton is doing very well so I was just comparing. Are we seeing any initial sign of improvement in this engineering division?
- Akshat Goenka:** Yes we are.
- Moderator:** Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.
- G Vivek:** You mentioned that the two biggest market for industrial sulphur namely US and China are so far untouched by us. US already you have mentioned, so any progress in the China market? And number two was this Bridgestone Tyre Company, the name I was forgetting, in Indore they are making at India and some companies are doing it mostly for exports, exporting the tyre from India, so any new development in that front and is that increasing the opportunity size for our company?
- Anurag Jain** See, as far as China is concerned we are already selling in China and as far as Bridgestone is concerned worldwide Bridgestone is customers of Oriental Carbon & Chemicals Limited.
- G Vivek:** Any benefit coming in from 'Make in India' campaign, basically tyres being made in India mostly for exports only besides the Indian CV market or Indian market?
- Anurag Jain:** I did not get your question.
- G Vivek:** What I am trying to say is, cost of operations and manufacturing in India are lower so are there any tyre majors setting up a plant in India to take advantage of lower manufacturing costs and exporting it from India?
- Anurag Jain:** Yes Michelin is there, they are expanding their capacity, Continental is here, Good Year is here, Bridgestone is there, all four people are there. International players are coming in India.
- G Vivek:** That means the growth is coming in the Indian market as well as export markets both the things we are tapping.
- Anurag Jain:** Yes. They are coming in for Indian markets and once they are set up obviously they will use the leverage to export also.
- G Vivek:** From China also we are getting a good response?
- Anurag Jain:** Yes, we have started getting response from China.
- Moderator:** Thank you. The last question is from the line of Govindlal Gilada. Please go ahead.
- Govindlal Gilada:** I want to know we are looking for any inorganic growth opportunities also?
- Akshat Goenka:** In insoluble sulphur inorganic growth is next to impossible.

Govindlal Gilada: Last question is, we have got any fixed dividend payout policy as such for our company?

Akshat Goenka: There is no fixed dividend payout policy but if you look at our track record over the last 2-3 years as a percentage of profits we intend to maintain that going forward.

Moderator: Thank you. I would now like to hand the floor back to the management for closing comments. Over to you sir.

Akshat Goenka: I take this opportunity to thank everyone for joining the call. Many insightful queries were raised and I hope we have been able to address all of them. For any further information kindly get in touch with SGA or our investor relations as well. Thank you once again for your support.

Moderator: Thank you very much. On behalf of Oriental Carbon and Chemicals Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.