



“Oriental Carbon & Chemicals Limited
Q2 & H1 FY2019 Earnings Conference Call”

November 05, 2018



**MANAGEMENT: MR. AKSHAT GOENKA –JOINT MANAGING DIRECTOR -
ORIENTAL CARBON & CHEMICALS LIMITED
MR. ANURAG JAIN – CHIEF FINANCIAL OFFICER & SGA -
ORIENTAL CARBON & CHEMICALS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Oriental Carbon & Chemicals Limited Q2 and H1 FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on 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, Joint Managing Director of OCCL Limited. Thank you and over to you Sir!

Akshat Goenka: Good morning and a very warm welcome to everyone. Along with me, I have Mr. Anurag Jain, our CFO and SGA, our Investor Relations Advisors.

I hope you have received our result and investor presentation by now. For those who have not, you can view them on our website.

At the board meeting last week the board has declared an interim dividend of Rs.4 per equity share that is 40% of face value of Rs.10 each. This is a hike from last year’s interim dividend. Continuing with a company’s philosophy of rewarding the shareholders the Board of Directors have approved a share buyback program through the open market mechanism of Rs.35 Crores at a maximum price of Rs.1150 per share.

Now it is really important to keep in mind that this is happening through surplus funds, even after the Rs.35 Crores is earmarked for the buyback the company will have more than adequate resources to pursue its growth in insoluble sulfur as well as the diversification plans that could come up and this is going to be quite clear if anybody goes through the balance sheet and looks at the debt equity ratio even post the buyback and the cash available post that. The company will continue to expand its business in the coming years with a help of a stronger balance sheet, the return on equity will also go up, so I think it is going to be a win-win for everybody.

Now coming to the performance, we had a good first half financial year 2019, during this year we have been able to successfully start commercial production of the second phase of expansion of insoluble sulfur that is 5500 metric tonnes per annum at Mundra within the scheduled time and ahead of budget, which we announced last time.

We have also been able to fully operationalize our phase 1 capacity. The company has been able to leverage its reach to newer geographies like China and North America where our products have been accepted. These markets are expected to be major growth drivers globally.



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Growth in the domestic tyre industry has been robust. Global tyre companies have also expanded their capacities in India as India had emerged as a hub for tyre exports. Being the only manufacturer of IS in India and having long-term relationships with the tyre companies, the company is well placed to drive these growth opportunities.

Anti-dumping duty has also been imposed on cheap tyre imports from China, which is another positive for the domestic tyre industry and we have seen an increased demand for that as well.

The global tyre industry has already done a capex of over Rs.50,000 Crores. A further Rs.15,000 Crores is invested in ongoing Brownfield projects and all these goes well for OCCL as this would increase the demand for insoluble sulfur.

Demand for commercial vehicle is also expected to increase driven by increased investments by the government on revival of infrastructure manufacturing. Another growth driver is the new compounds being designed for the ultra high performance tyres where it is assumed that the requirement for IS will be higher than normal, but this will further add to the growth of insoluble sulfur consumption globally, but this is something in the future, today we cannot quantify or get into those discussions, we have continue to strengthen the tyres with all our major customers, we continue to enhance our footprint across all domestic and global consumers and remain in a strong position to capture higher market share as the new capacity starts coming in. 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 now take you all through the financials of the company.

Revenue for Q2 FY2019 is Rs.100 Crores compared to Rs.76 Crores in Q2 FY2018 a growth of 31%. This growth was led by a mix of increase in realization and volumes. Revenue for H1 FY2019 is Rs.193 Crores compared to Rs.155 Crores in H1 FY2018, a growth of 25%.

For Q2 FY2019 EBITDA stood at Rs.31.6 Crores, a growth of 32% from previous year. EBITDA margin for Q2 FY2019 were stable at 31.6%. For H1 FY2019 EBITDA stood at Rs.60.1 Crores, a growth of 19% from the previous year. The EBITDA margins were again stable at 31.1%.

Profit after tax for Q2 FY2019 was of 42% to Rs.17.7 Crores. PAT margins for the quarter stood at 17.7%. Profit after tax for H1 FY2019 was up 26% to Rs.34.1 Crores, PAT margin for the half year stood at 17.6%.

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



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Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Good morning Sir and congratulations for good set of numbers in Q2. Sir just wanted to understand on the sulfuric acid plant we had faced small shutdown in Q1 and there were some extra expense, so how was the performance of this plant in Q2 and if you could put some light on the benefit, which we would have got from the higher sulfuric acid prices?

Anurag Jain: The Q1 shutdown was a planned annual maintenance shutdown, which one has to take every year in the sulfuric acid plant and therefore the expenses incurred relates to the plant annual maintenance expenses, so there was nothing out of ordinary as far as that is concerned. As far as the performance of sulfuric acid is concerned the margins remained good for the five months that the plant has operated during the six months and other than that obviously the steam which is generated from the sulfuric plant is used in the manufacture of insoluble sulfur, so In Dharuhera plant we do not need to generate steam by burning fuel as long as sulfuric acid plant is operational.

Abhisar Jain: Sir any indication on the sulfuric acid realization, how much they were up sequentially?

Anurag Jain: The sulfuric acid rates have come up by about 20%, 25% over the last year, but so has the prices of sulfur gone up ., but overall the margins have improved over last year.

Abhisar Jain: Sir in terms of the topline growth being driven by both volume and realization can you give some indicative colour on whether it was more pronounced by volumes or realizations and also the revenue mix in terms of export and domestic?

Anant Daga: As we have indicated earlier we continue to have about 60% of the domestic market and we continue to have double-digit growth in the domestic market demand. The rest of the growth has come from the exports market.

Abhisar Jain: Also if you can tell us if the the growth was driven more by volumes or realizations, if you can provide it sequentially or year-on-year basis that will be helpful?

Anurag Jain: It was driven equally by volume as well as by realization.

Abhisar Jain: Sir this you are saying on year-on-year basis?

Anurag Jain: Yes, Year-on-year basis, rather it was more by volume than realization
Abhisar Jain: Sir just one more thing on the ramp up of the Mundra lines, so by when do we expect that we should be running at the full or the optimum utilizations at Mundra?



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- Anurag Jain:** Hopefully the next financial year, which is what we have estimated earlier as well.
- Abhisar Jain:** Sir one last thing on the Duncan Engineering subsidiary that seems to be doing quite well now for the last few quarters and we are seeing improvement of stability returning, so any outlook therein from your side it will be really helpful?
- Anurag Jain:** No I think for now we are looking at having a profitable financial year and a lot of the clean ups in the balance sheet would also be concluded in this year and the results that are coming simultaneously with the clean ups happening and I think we are now looking at how we can grow the business and take it to the next level and we are working on that direction.
- Abhisar Jain:** Sure Sir and just one last thing on the dividend policy, last time you had mentioned that company would like to distribute close to 20% of profits as dividend and that remains unchanged irrespective of the buyback which any which ways is as positive thing?
- Akshat Goenka:** As you can see the interim dividend has been increased.
- Abhisar Jain:** Correct Sir. Sure Sir. Thank you so much and best of luck.
- Moderator:** Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** Congratulation on the numbers. Just had a quick question with regards to your capacity after it gets kind of utilized in FY2020, what would be the plans be after that in terms of expansion?
- Akshat Goenka:** No, we have already zeroed down where and how our next expansions will take place and all those background works are already on and we are not in a position to officially announce it right now, but yes a lot of background work is happening and we are pretty much zeroed down on where our next two lines of expansion would come in.
- Riddhesh Gandhi:** Got it Sir and is this expansion would continue to be in IS itself or is there some other plans?
- Akshat Goenka:** Right now the concrete thing that we are working on is, IS expansion, there was one or two things that we had worked on for diversification including bidding for a company in NCLT, but none of it fructified, so we are back on the drawing board as far as the diversification is concerned and we continue to work on it.
- Riddhesh Gandhi:** Got it and the expansion that would be actually Greenfield or you still have enough brownfield capacity available to it?
- Akshat Goenka:** I can not reveal whether it will be Greenfield or Brownfield, what I will tell you is in one of our location we still have space for a Brownfield.



- Riddhesh Gandhi:** So if I understand all of the groundwork is in place, you just have an officially announced it, but the plan would be to continue to explain into IS?
- Akshat Goenka:** Yes, the groundwork is happening, a lot of it is in place, the rest is happening, once it is completed will announce and that is that the reason we have not announced it but it is not completed.
- Riddhesh Gandhi:** Got it, as you continuing to expand globally and gain market share from the global leaders, are you seeing any kind of increase in competitive intensity with regards to prices for them to continue to gain market share, are you seeing because it is pretty much only three or four players?
- Akshat Goenka:** The answer to that is no we have increased our market share, but we have not actually taken away quantities from the leader, the reason being that we have been taking more of the share of the growth rather than absolute number taking away market from the leader.
- Riddhesh Gandhi:** Got it and just to get a broad idea, how much would be the global growth in IS globally?
- Akshat Goenka:** The global growth should be 3% to 4% per annum that is what some of the research paper say.
- Riddhesh Gandhi:** Okay and if you are saying you will continue to get higher percentage?
- Akshat Goenka:** I would say that we are currently doing that whether we will be able to do that for a long-term is something, which we cannot say now, but at current level yes because our market share has increased.
- Riddhesh Gandhi:** Got it and the last question around the Chinese competitors trying to get it to this area, have they been able to achieve anything with regards to being able to crack the product?
- Akshat Goenka:** No, not yet.
- Riddhesh Gandhi:** Are you picking up any early signs that could be something, and that could play out or it is highly unlikely because of the technology the processes we have it in place?
- Akshat Goenka:** See how it plays out is that we have also been upgrading our product, so the way I would like to explain it to you is that may be the Chinese product is similar to what we had say 7, 8 years ago, but we have in the meantime able to upgrade our product, so we had been able to maintain that difference in quality and technology.
- Riddhesh Gandhi:** Got it, but do you see them potentially actually speeding up the approval process and actually kind of do some value addition Quikr, given the opportunity?



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- Akshat Goenka:** For the Chinese.
- Riddhesh Gandhi:** Yes.
- Akshat Goenka:** We have not yet seen anything like that as of now
- Riddhesh Gandhi:** Got it and just a last question how much would be the difference in realization of ours versus a couple of global leaders?
- Akshat Goenka:** I would not know that exactly, but selling cheaper is not our proposition, so it is not that we sell cheaper to tie up customers
- Riddhesh Gandhi:** So is the proposition, customization of the product based on the requirements or is it based on the supply chains, location, capability?
- Akshat Goenka:** When we go into the new market, we are the second supplier and obviously we offer equally good customization of product. We could be marginally cheaper from the leaders as we do not know the prices of the leaders.
- Riddhesh Gandhi:** How high is the degree of customization, as in actually IS do they have 100s of grades and therefore after a customer is used to buy higher or is it pretty much a commodity as whoever can pick it from, it is pretty much the same?
- Akshat Goenka:** So there are few standard grades, which form the bulk of the insoluble sulfur market and then there are few specialized grades, which we have developed, those are the niche market that we cater to.
- Riddhesh Gandhi:** And in terms of percentage of RM cost for the tyre manufacturers, how much would IS be?
- Akshat Goenka:** Miniscule, very less.
- Riddhesh Gandhi:** and there is no other product, which would potentially come and replace it or effectively we use an alternative?
- Anurag Jain:** Because the insoluble sulfur is a vulcanizing agent and frankly nobody is using anything other than sulfur as a vulcanizing agent.
- Riddhesh Gandhi:** Got it, understood, okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.



Digant Haria: My question is this quarter we reported very good EBITDA margins, so just wanted to ask one, is there any component to currency depreciation in this EBITDA margins and two, if there is any benefit we have got from depreciation would operating leverage in the coming quarters be able to offset that, so Sir these are two questions?

Anurag Jain: As far as your first question is concerned the company has a policy to take forward covers for six months, so if you are looking at the level of currency, which was there in the month of September and August then those level of currency equivalent realization would come six months from those day that means February and March and what was your second question?

Digant Haria: Second question is that should we assume this Q2 margins as more like base margins now or is there some more operating leverage, which can probably help us or is there anything else, which can may be take the passenger bit low?

Anurag Jain: So once the fourth line becomes fully operational obviously we will get some operating leverages from the fourth line becoming fully operational.

Digant Haria: Okay, so otherwise this number is stable to assume for now?

Anurag Jain: We have been given a forecast of EBITDA margins being in the late 20s, so we maintain that forecast.

Digant Haria: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Manish Jain who is an Individual Investor. Please go ahead.

Manish Jain: Sir my question was regarding the first this Eastman Malaysian plant has started, so is it affecting your competitive intensity and is it on a price or volume or how it works basically?

Akshat Goenka: Malaysian plant has not started now. It has been operational for pretty long time, so that is not something new; however, there were some capacities added to the Malaysian plant and simultaneously there were some capacities, which were extinguished from other locations; however, the net impact was increase in capacity for Eastman Chemicals, your question is whether that has resulted in kind of a price or we have not seen that as yet.

Manish Jain: My another question was regarding basically how it works that let us say there is a tyre plant, so are there are two suppliers like let us say Eastman and we and can our products be used in exchange of each other basically?

Anurag Jain: Yes, mostly the products if they satisfy the requirement of the tyre company can be used in place of each other, but normally once our plant is put on one product for a particular application they



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prefer to keep using that product for sometimes, it is that no plants like to switch products midstream in short spaces.

Manish Jain: Second supply is usually there to avoid stocks out etc., basically?

Anurag Jain: Yes, to avoid stocks out etc., to have alternative suppliers, obviously everybody likes, they are obviously as you would know, many advantages to a added suppliers.

Manish Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.

Ankit Agarwal: Thanks for the opportunity. Sir I have couple of questions. The first one being about financial performance, so we saw good revenue growth this quarter, so is this primarily increase in volumes because of a new capacity that have been added, is there been any price hike?

Anurag Jain: If you are talking about turnover that is primarily because of increase in volumes and also because of Price rise but at EBTIDA level obviously its because of price rise simultaneously with the increase in input costs like rise in sulfur, crude and exchange rate, so we have seen is that we have been able to maintain our margins. The topline has increased both because of price rise as well as because of increase in volumes.

Ankit Agarwal: Increase in volumes?

Anurag Jain: yes, mainly because of volumes.

Ankit Agarwal: So the next question being on similar line, so how are the contracts with a client in terms of volume and price like are they fixed or they get changed like on a specific time period?

Anurag Jain: So mostly the price wise the contracts are on mostly six monthly basis and somewhere quarterly basis and therefore the price change would happen on a six monthly basis.

Ankit Agarwal: In terms of volumes?

Anurag Jain: Volumes are normally on an annual basis and on a long-term basis.

Ankit Agarwal: Next one being on the capacity utilization level, so currently the new plant what could be the capacity utilizations level currently for the new plant?

Anurag Jain: New plant means the one which came online in July, so as Akshat has already pointed out that this new plant would be optimally utilized in the next financial year.



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Ankit Agarwal: That answers my questions and one more question about the capacity, how much capacity do we sell in North America and China?

Anurag Jain: Sorry we cannot give specific numbers.

Ankit Agarwal: Okay Sir for the previous phase 1 question I also wanted to ask about the capacity plant that came in December 2016?

Anurag Jain: Yes.

Ankit Agarwal: So the same question for that like when do we expect the utilizations of that plant to reach optimal levels?

Anurag Jain: You are seeing the growth in the numbers this time, so that is because of utilization of that capacity, so we expect that would be optimally utilized in this financial year.

Ankit Agarwal: Sir have we seen any pressure through any of our competitors while trying to enter new geographies?

Anurag Jain: So when we enter new geographies, I think the pressure would be on the competitor note on us.

Ankit Agarwal: Thank Sir that answers all my question. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Just to understand is there any additional capacity announced that any of your competitors have done?

Akshat Goenka: The capacity expansion that the competitors have done recently in the last few years is that Eastman has added 40000 tonnes in Malaysia, which I pointed out earlier and they have also optimized capacities elsewhere and Shikoku also has come up with the capacity expansion last year, so that is what we know.

Riddhesh Gandhi: Which is also on stream is it?

Akshat Goenka: Yes it is come on stream this year.

Riddhesh Gandhi: Got it, but given the incremental returns ratios for everybody will be quite high given it is only three or four players who have the capability to build it, would not the competition also be aggressively expanding their capacities to meet the incremental growth requirements and then sort of wanting of market share?



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Akshat Goenka: That is why all the three of them have expanded. As far as the capacities are concerned I think the capacities of all the three plants put together would be about 280000 tonnes, so which is a very healthy even now if you look at the demand versus capacity it is healthy, it is not something like there is overcapacity, I think the demand is between 85% or odd of the capacity as of now.

Riddhesh Gandhi: I think the question was do you see any risk of they becoming overcapacity in this business because of how attractive the returns ratios are?

Akshat Goenka: The answer to that is if there is a discriminate increase in capacities and if the ratio of capacity to demand, deteriorates then obviously the returns would also come down.

Riddhesh Gandhi: Yes got it, but effectively speaking as of now there is no actual increment in size, which is already on stream now, there is no other incremental announcement, which has been made with regards to capacity?

Akshat Goenka: No we are not aware of anything as of now. Except for everything announced and has come online and we are not aware of any other expansion happening.

Riddhesh Gandhi: Got it and typically how long would be the lead-time to add new capacity?

Akshat Goenka: For us, it is around 18 to 20 months, but for others it will be difficult to say but we would believe it should be around the same period.

Riddhesh Gandhi: Got it, so effectively what I am trying to understand is that as you effectively reach optimal utilization by FY2020, you will plan 18 to 20 months in advance to plan any new capacity would also ready for that new?

Akshat Goenka: That is what we should be doing yes.

Riddhesh Gandhi: So which means now in the next kind of couple of months or so you are giving us some insight on the new kind of capacity addition that you are guys are looking at or effectively the planning is already ongoing and therefore this has already started with regard to the planning?

Anurag Jain: As a policy once we done with any capacity expansion we will start looking for the other avenues of expansion where the next expansion should be and how to go about it, so this is the thing that we are working on presently and as Akshat has pointed out, it is in advanced stages and once we are ready we will come with announcement.

Riddhesh Gandhi: Got it, okay, all right. Thank you.

Moderator: Thank you. The next question is from the line of Nisha Desai from Raga Securities. Please go ahead.



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Nisha Desai: I have a few couple of questions. I had one question is have we been able to increase our customer base like in last six months?

Anurag Jain: Sorry increase what?

Nisha Desai: Our customer base in the last six months?

Akshat Goenka: Yes we have added customers.

Nisha Desai: So you can share the name of these customers?

Akshat Goenka: We have added customers across geography, we have added some customers in Southeast Asia, some in East Europe, some in USA, yes, but I cannot give name just now.

Nisha Desai: Another question is that can you give us guidance on the revenue growth and EBITDA margin that the company wants to achieve?

Anurag Jain: EBITDA margins our guidance is always late 20s and as far as revenue growth is concerned we do not give up numbers, but we have indicated that the line, which became operational in July should be optimally utilized during the year 2019-2020, so that is the kind of guidance we can give.

Nisha Desai: Okay Sir. That is it from my side. Thank you.

Moderator: Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management for closing comments.

Akshat Goenka: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any other information kindly get in touch with me or Strategic Growth Advisor, our Investor Relation Advisor. Thank you once again and very happy Diwali to everyone.

Anurag Jain: Thank you.

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