

6<sup>th</sup> November, 2024

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**NSE Code:- PCBL**

**BSE Scrip Code:- 506590**

Dear Sir,

**Sub:- Q2 FY 25 Earnings Conference Call – Transcript**

Further to our letters dated 25<sup>th</sup> October, 2024 and 30<sup>th</sup> October, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Q2 FY'25 Results Conference Call held on Wednesday, 30<sup>th</sup> October, 2024 at 12:30 hrs India Time, for the quarter ended 30<sup>th</sup> September, 2024. This information will also be hosted on the Company's website at <https://www.pcblltd.com/investor-relation/financials/investor-presentation> .

We request you to please take the afore-mentioned information in record and oblige.

Thanking you,

Yours faithfully,  
For **PCBL LIMITED**

K. Mukherjee  
Company Secretary and Chief Legal Officer

**Encl:** As above

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**PCBL Limited**

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**“PCBL Limited Q2 FY '25 Earnings Conference Call”**  
**October 30, 2024**



**MANAGEMENT: MR. KAUSHIK ROY – MANAGING DIRECTOR, PCBL LIMITED**  
**MR. RAJ GUPTA – CHIEF FINANCIAL OFFICER, PCBL LIMITED**  
**MR. SAKET SAH – GROUP HEAD INVESTOR RELATIONS AND ESG REPORTING**  
**MR. PANKAJ KEDIA – VICE PRESIDENT -INVESTOR RELATIONS**  
**MANAGEMENT: MR. SANJESH JAIN – ICICI SECURITIES**



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**Moderator:** Ladies and gentlemen, good day, and welcome to PCBL Limited Q2 FY '25 Earning Conference Call, hosted by ICICI Securities.

As a reminder, all participants' 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 and operator by pressing "\*", then "0" on your touch tone phone. Please note that this conference is being recorded.

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

**Sanjesh Jain:** Thanks, Nivedita. Good afternoon, everyone on the call. Thank you for joining on the PCBL Limited Q2 FY '25 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 and ESG; Mr. Pankaj Kedia, Vice President, Investor Relations.

I would like to invite Mr. Kaushik Roy to initiate the call with his “Opening Remarks”, post which we will have a Q&A session. Over to you, sir.

**Kaushik Roy:** Thank you so much. Very good day, ladies and gentlemen. Good afternoon and a very, very warm welcome to all of you. And at the same time, I wish you all a very, very Happy Diwali and prosperous New Year.

I will take you through some of the major highlights first for the quarter, and thereafter, will be happy to take questions.

During the quarter, our consolidated sales volume (carbon black) increased by 14% year-on-year to 1.48 lakh tonnes. While consolidated revenue from operations increased by 45% to Rs. 2,163 crores on the back of better realization, higher sales volume and revenue from recently acquired Aquapharm Chemicals.

Consolidated EBITDA grew by about 53% year-on-year to Rs. 369 crores. PBT stood at Rs. 164 crores, while PAT stood at Rs. 123 crores. Consolidated EBITDA per tonnes in carbon black business further increased to Rs. 21,324.

Of the total carbon black sales volume, domestic sales were at 90,219 tonnes, while international sales were at 58,474 tonnes. Export sales volume registered a strong year-on-year growth of 22% in Q2 FY '25.

Now, let me move on to segmental performance. Tyre accounted for 82,383 tonnes, performance chemical reported sales volume of 49,183 tonnes, while specialty sales volume was at 17,127 tonnes, which is again the highest ever in our history. We continue to expand our product portfolio and customer base.



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During this time, we also achieved the highest ever power generation and sales volume during the quarter. Power generation increased by 25% from 167 MU in Q2 FY '24 to 209 MU during the quarter, with an external sales volume of 126 MU as against 103 MU in Q2 FY '24. PCBL's average realizations stood at Rs 3.56 Kwh .

Coming to six monthly performances:

During H1FY '25, consolidated revenue from operations increased by 52% year-on-year to Rs. 4,307 crores from Rs. 2,834 crores (H1FY '24). Sales volume increased 19% year-on-year to 302,610 metric tonnes in H1FY '25. The consolidated EBITDA for H1FY '25 was up 62% year-on-year to Rs. 738 crores. from Rs. 455 crores. Power generation and sales volume also went up by around 20% in the first half of the financial year.

Let me now talk about Aquapharm Chemicals:

Aquapharm Chemicals reported a steady performance during the quarter. Post the completion of the acquisition, we have been working on an integration process. The Company is implementing various cost optimization and operational efficiency measures which would result in better capacity utilization, leading to improvement in the Company's performance in coming quarters.

In Q2 FY '25, revenue stood at Rs. 362 crore and EBITDA stood at Rs. 50 crores. The quarterly sales volumes stood at 24,510 tonnes. The capacity utilization remained above 75% during the quarter.

PCBL is amidst an aggressive capacity expansion program in carbon black, water treatment, detergent, as well as oil and gas chemicals under Aquapharm. The Company is working on strengthening its supply chain, improving product mix and cost optimization initiatives. The long-term prospects of all the business segments look quite positive, and we believe there would be adequate business potential to sustain the growth momentum.

At PCBL, research and innovation are important drivers of both technical advancement and business expansion. As communicated earlier, the Company has made substantial investment in infrastructure, human capital and streamlined processes. These investments have significantly bolstered PCBL's capabilities in new product development, customization, and applications, as well as process efficiency. The carbon black capacity of the Company stood at 770,000 MTPA. PCBL expects to commission the specialty project of 20,000 MTPA in Mundra and 30,000 MTPA brownfield expansion of carbon black facility in PCBL, Tamil Nadu in Q3 FY '25. The second phase of PCBL Tamil Nadu expansion of 60,000 MTPA would take the total installed capacity to 8,80,000 MTPA, with a Green Power capacity of 134 MW in FY '26.

Aquapharm Chemicals is implementing an expansion project of 38,000 MTPA, which is likely to be commissioned by March 2025.



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We aim to reach 1 million tonnes capacity in carbon black by FY '27-'28, possibly we will surpass this target as well. We are currently evaluating sites for proposed greenfield capacity. This would help us to significantly increase our global market share.

Now, let me share some updates on our recent joint venture in battery chemical space, specific to anode:

PCBL has executed a JV agreement with Kindia Private Limited to form Nanovace Technologies Limited for developing nanosilicon products to be used in anodes of lithium-ion batteries. PCBL holds 51% and Kindia 49% in Nanovace Technologies. PCBL would infuse \$44 million in Nanovace in multiple stages over the next two years for acquiring IPs, setting up pilot plant, and thereafter commercial scale manufacturing facility. Currently, Nanovace is setting up a pilot plant at PCBL, Palej site.

The carbon black business continues to be on a strong growth trajectory and is well poised to capture the growth in the domestic and exports market with new capacity additions, wide product suite, and strong R&D capability. The Company continues to invest in growth, innovation and supply chain capabilities across the world. We expect significant growth in international sales volume to European markets. With planned capacity additions, PCBL plans to ramp up global sales volume from FY '26.

With this update, I will conclude now and open the floor for your queries. Thank you so much.

**Moderator:** Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Aditya from SMIFS Limited. Please go ahead, sir.

**Aditya Khetan:** Yes. Thank you, sir, for the opportunity. Sir, my first question is on to the expansion which we are doing of 30,000 tonnes by next quarter. So, has the work at the site been completed fully as of now?

**Raj Gupta:** Yes. Aditya, the project work is almost complete. We are awaiting Consent to Operate. We have already applied for it. And we expect commissioning soon.

**Aditya Khetan:** And sir, in this plant, so is it an extension to our existing grades only? So, recently we have also got some patented products into the carbon black space, so that new products we are planning to launch here or so it is an extension of the old product?

**Raj Gupta:** We have three broad portfolios or business segments under PCBL, one is Specialty, which requires completely different processes and reactor design. Rest all grades can be manufactured in this new facility, so other than specialty. Specialty requires separate reactors. Currently we have such reactors in Palej and Mundra. Rest all plants can manufacture all the other grades, including the ones which we recently patented.



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**Aditya Khetan:** Sir my next question is on to the carbon black EBITDA per ton. So, I believe sir for the last two, three quarters, we are maintaining that run rate of Rs. 21,000 per tonnes. So, how sustainable you see this number to be going ahead? Can there be like this can fall down to your original target of Rs. 18,000 per tonnes, which you were alluding one year back, can that number be achieved? Or you think this is the sustainable number for now?

**Raj Gupta:** So, the global business environment even now, is extremely turbulent. Last quarter, we saw the freight rates moving up by almost 35-40%. And the margins that you see for last quarter, is in spite of that. We not only believe that these margins are sustainable, but we also believe there is a fair level of cushion for us to go up on margins as our product mix changes, as our operating leverage improves. And we are still working on improving our manufacturing efficiency, so yields also have scope to improve.

**Aditya Khetan:** But sir, suppose if the freight rates compress or they come down, which we have started to witness on quarter-on-quarter that freight rates are coming down, still you see that the spreads can maintain because decline in spread rates would definitely impact the spreads also of carbon black. In spite of this you are factoring like this, so this number can be maintained you mean to say?

**Raj Gupta:** Aditya, when we sell in global markets, we have to compete with the local manufacturers. So, when freight rates are high, our margins get compressed. So, in a low freight scenario, the margins would tend to go up, not go down.

**Aditya Khetan:** I was actually mentioning so when freight rates are high, so to pass on that impact, you generally keep the carbon black prices at a higher level, just to pass on that incremental freight. So, in that time generally the spread looks optically higher as compared to a normal business environment, but still like you're alluding to the fact that this number can be maintained?

**Raj Gupta:** Yes. I mean, when the cost of doing business comes down, generally the margins expand, and that is true to our business also.

**Aditya Khetan:** Perfect. Sir on to the Aquapharm, I believe sir you were guiding earlier around 15-20% volume growth. In this quarter sir we had witnessed only, you can say, flattish volumes only. Any specific reason, sir, can you highlight for these flattish volumes?

**Raj Gupta:** Aditya, there are a lot of stuff that we are doing in Aquapharm. We are primarily working on improving their cost structure, improving operational efficiency and improving capacity utilization. But all these initiatives will take some time. So, the real reflection of such measure will flow into the numbers, maybe after two, three quarters. So, in the current quarter, I mean, with all the global uncertainties which are there, plus the turbulence in global business conditions, last quarter was largely flat, but we expect this performance to improve in quarters going forward.



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**Aditya Khetan:** Sir, just one last question. Sir, outlook on the debt what we are foreseeing. And in earlier call sir you have mentioned that we are looking at around Rs. 2,000 crores of cash flow per annum. In half yearly sir, we have made somewhere around Rs. 700-800 crores. Just want to know, so that can Rs.2,000 crore annual cash flow number be maintained for the next two, three years? And how that would be utilized for repayment of debt and for the further CAPEX?

**Raj Gupta:** Aditya, when we spoke about cash flow, we spoke about how much cash we are going to generate over the next five years. And we did speak about Rs. 9,500- 10,000 crores of cash generation. But cash generation would increase every year with higher capacity and higher sales volume. So, it will not be uniform across every year. So, it will not be like Rs. 2,000 crore every year for the next five years, right. But we will be generating enough cash flow which can support our growth plans as well as also help us reduce our debt.

**Aditya Khetan:** Sir, any debt figures you have made up in mind? Like for FY '26-'27 what would that number look like?

**Raj Gupta:** We are not looking at any absolute debt level, but we are not comfortable with our debt to EBITDA beyond 2. So, we will try and bring it down to that. Now, it might take a year more because we will certainly not compromise with our growth plans just because there is a little more debt on our books. But whatever surplus cash that we generate beyond our capital expenditure, that certainly we are going to utilize towards debt reduction.

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

**Radha:** Sir, my first question is that in the carbon black business, according to a previous presentation given by the Company, so just wanted to understand the demand scenario. So, India is expected to create an incremental demand of 4.5 lakh tonnes in the next five years. The Europe rebalancing of supply chain is creating an incremental demand of 2.5 lakh tonnes, and global market ex of India, if we factor in low single digit growth rate, then that is creating around 300 lakh tonnes of demand in the next five years.

So, from FY '24 base, PCBL's target is to achieve another 4 lakh tonnes of volumes in the next five years. So, from India, if you assume 33% market share in India, then we can get around 1.5 lakh tonnes from India out of the 4 lakh tonnes of incremental volume that we want to do in the next five years. So, for the balance, that is 4 minus 1.5, can you please help me how the road map is that how much from Europe rebalancing are you targeting and how much from the remaining global market growth?

**Raj Gupta:** Radha, we are not targeting any particular market for our growth aspiration. It's a fairly large market. It's around 15 million tonnes market already. And if you look at the global growth rate, long term growth rate had been around 3.5%, which creates a large opportunity and scope for further increase in volume. Now, a lot of countries which have large consumption are not adding



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capacity. So, the opportunity for Asian manufacturers becomes very large. We are a global Company, and do not depend on any single market.

If you look at our last 3-4years' export volumes, it has increased from around 150,000 tons to 250,000 tons already. And there's a large market there.

We have invested heavily in our supply chain ability in the last 4-5 years. Currently, we do not have the capacity to cater to all this demand. But the demand is there. So, whatever infrastructure we have already created, that will support our growth plans. We are very confident that growing at 10%-11% volume CAGR in the next 5 years is not going to be much of a challenge for us, we just need to have capacities.

**Radha:** Sir, just if you can give this Europe's re-balancing of 2.5 lakh tonnes that Russia and China used to supply. So, out of that how much can we get?

**Raj Gupta:** Radha, we are looking at all markets with equal possibility. So, we are not focusing our growth plans on any particular geography. We will remain flexible. So, wherever we see opportunity, we are trying to create stronger presence in all markets where there is a potential. So, Europe remains important for us, but this is obviously not going to be the only market. So, putting a number to a market, I do not think that will be fair for us at this stage.

**Radha:** Sir, the second question is on the CAPEX front. So, in the last call you had highlighted that to achieve Rs. 2,300 crores of EBITDA in carbon black business, we need around 1.4 MTPA of capacity. So, on a base of FY '24 capacity of 7.7 lakh tonnes, we need to add another 6.3 lakh tonnes. So, the CAPEX per metric tonnes was also highlighted in the last call, so that I have taken at Rs. 65,000 per tonnes. So, that gives us a CAPEX of Rs. 4,500 crores only on the carbon black business. But in the call, it was highlighted that on carbon black we will be spending Rs. 2,500 crores but I am getting Rs. 4,500 crores. So, please help me where I am going wrong or help me understand these numbers.

**Raj Gupta:** Radha, I think the numbers are not correct. We did speak about 400,000 tonnes of additional capacity requirement. So, if we grow at about 10%-11% every year, by 2029 we will require another 430,000 tonnes of capacity, which will involve a CAPEX of about Rs. 2,500- 2,600 crores, and that's the number that we shared during the last call.

**Radha:** Sir lastly, you spoke about the supply chain that we have created over the years. So, exports have become a very big factor for PCBL, so currently 40% of our carbon black sales are exported. So, that has gone up from 30% in the last two years, and in ACPL also 90% of sales are from global markets. So, just wanted your thoughts a little bit about if you could speak on how the Company has improved the supply chain in the global markets, both organically and inorganically. If you can tell us a bit of numbers in terms of how many distributors we have added in the region, where we are standing versus peers? And how we are trying to scale this up in the next five years.





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**Raj Gupta:** Well, Radha, for the last 6-7 years we have been investing in supply chain bandwidth. Currently, we have seven global offices, we are going to get another one, I think in a month's time, so we will have eight. Then we have our own warehouses, decanting stations, even our R&D center outside India. Currently there are 21 touch points which include these warehousing facilities, decanting stations and our offices in different parts of the globe. Additionally, we also have tie ups with dealers and distributors. But in all geographies where we see large potential, we have our own office now.

So, in smaller geographies where it is more fragmented sales, we are doing through dealers and distributors. Additionally, now with Aquapharm coming under our fold, they have almost equal number of touch points. So, together if you look at the entire supply chain, currently we have more than 40 global supply chain points outside India. And we are, of course, going to strengthen it further going forward. As I said, we do not depend on India for our growth aspirations, the entire world is our marketplace. So, we are going to further invest in supply chain capability going forward.

**Radha:** Sir, just one last question. Please help us understand the product from Nanovace. So, what is the USP of the products that we will be making in that compared to the peers? And is there anyone in India having such capabilities or will we be the only Company having the sole advantage?

**Raj Gupta:** Well, Radha, in batteries there are three important parts, one is anode, one is cathode, and one is the electrolyte. Cathode is where the reaction happens and the ions are generated, and ions are stored in the anode part of the battery. So, anode plays an important role in battery capacity. So, the higher the absorption capacity of anode, the bigger will be capacity of the battery, lower will be the charging time of the battery.

Now, conventionally, anodes were made from graphite, and graphite has very limited absorption capacity. What we are going to produce under Nanovace will be an additive which when mixed with graphite in anode, will increase its absorption power, ion absorption power, which will increase battery capacity and which will also reduce the charging time of the battery. Now, it's a breakthrough technology. Currently, while I would not say we are going to be the only manufacturer in this space, a lot of work is happening globally and on different materials. We are working on Silica. And the material that we are going to manufacture is one of its own kind. It's, like I said, a breakthrough technology. This material is very expensive globally, currently it is getting sold at \$300/kg. We believe that even if we sell it at \$100/ kg two years from now, we are still going to get about 65% gross margin. That's the kind of potential on the profitability side. So, this is it, Radha, if I have been able to answer your question.

**Moderator:** Thank you. The next question is from the line of Kunal from Kitara Capital. Please go ahead.

**Kunal:** Sir, can you give me an outlook for Aquapharm for the next 3-5 years, as in how to understand the business and how's the outlook for the business? And second, again for battery chemical space, as I rightly understand, the revenue will start flowing from FY '27 onwards. So, do we



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have any visibility for that revenue? And like you said, 60% gross margin, so what cost advantage do we have, is it the labor or the raw material?

**Raj Gupta:**

It is the process itself, Kunal. So, I will answer your second question first and then I will hand it over to our MD to answer the Aquapharm thing. Currently, the process of manufacturing is extremely power intensive. And consequently, the cost itself is very high. We believe that we can produce it at one-fifth of the cost. So, what this process will involve is conversion of natural silica or the regular silica into nano silicon particles. Silica is one of the most abundantly available material in the universe, and therefore I mean very cheap. And our process will not be as power intensive and therefore we will have the cost advantage, right. So, that's on the raw material part.

Now, on the profitability part, we are starting with our 2,000 tonnes capacity. Even at \$100/kg revenue, this 2,000 tonnes capacity will generate a Rs. 2,000 crores top line. So, that's kind of, and we believe that once this plant comes up, which should be in FY '27, it will not take us more than couple of years' time to utilize full capacity. So, by FY '29 we should be doing at least Rs. 2,000 crores kind of revenue from this facility.

On Aquapharm, long term business plans of course we have. But what we are doing currently, I think, that is more important for you to understand. I will hand it over to Mr. Roy.

**Kaushik Roy:**

Well, on Aquapharm there is two parts to it, one is the Indian portion, and the other one is the US portion. Now, Indian portion, primarily they are into water treatment and detergent application. And the USA is more into the chemical for oil and natural gas production. Coming to India, within detergent and water treatment application, there are three categories of products. One is phosphonate, which is kind of the base and fundamental grade, one is polymer, and the third one is green chelates. Aquapharm currently is more focused on phosphonate, but going forward, our major focus will be on green chelates and polymer application for water treatment and detergent as well.

The reason is, polymer and green chelates both are more green products from the point of view of sustainability and will be the need of future for the entire globe. So, therefore, the focus will move more and more towards green chelates and polymers, and this will be driven primarily by the R&D coming out with newer products in both these categories, polymers as well as the green chelates. And we see a clear, very sharp growth opportunity in these two areas. While phosphonate will continue to hold a position as the global leader, we'll continue to expand phosphonate as well.

Coming to USA, which is primarily for oil and gas chemical, this is primarily today for U.S. market, but we are likely to expand beyond U.S. to European market as well, that is our desire. Current capacity is not fully utilized. We are going to add further capacity as soon as we feel the current capacity is getting consumed fully. So, that is the plan going forward. We expect to invest



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roughly around anywhere between Rs. 600-700 crore over the period of next three to five years, between Aquapharm India and USA.

**Kunal:** Rs. 600-700 crores of revenue?

**Kaushik Roy:** Rs. 600 - 700 crores of investment in CAPEX over a period of next 3-5 years between India and USA.

**Kunal:** And what should be asset turn for the CAPEX?

**Raj Gupta:** If you look at their current fixed asset block, they have about Rs. 400 crores of assets which can generate about Rs. 2,000 crores of top line. We believe the ratio will be largely same.

**Kunal:** And margins should be better or should be the similar range?

**Raj Gupta:** See, historically, they have operated at about 20% plus margin, and with the new product launches which are going to be higher margin, we believe that we can improve it further. So, FY '29 we are targeting about 25% EBITDA margin from this business.

**Moderator:** Thank you. The next question is from the line of Sanjesh Jain. Please go ahead, sir.

**Sanjesh Jain:** First of all, Happy Diwali to the entire team. First, to the bookkeeping question, let me finish that. This quarter there was a sharp drop in the other expenses on the standalone side, any particular reason? And this is despite freight cost being elevated, that's one. Number two, it appears that there is some compression in the gross profit margin at Aquapharm level and that's leading for EBITDA sequentially declining. Any particular thing happening in the Aquapharm as the weakness in the entire market is impacting as well.

**Raj Gupta:** So, our other expenses contain some of the variable expenses also, and volume this quarter was around 5,000 tonnes lower compared to last quarter. So, there was a proportionate decrease there. Also, in the first quarter there were some shutdowns that we had taken towards the end of the first quarter, so there were some repair and maintenance related expenses which were there, which obviously was not there in quarter two. So, it was primarily on account of that. Coming to Aquapharm thing, I will request Mr. Roy to take it.

**Kaushik Roy:** Aquapharm, the decline what we've seen actually it has happened more from US operation. The US market from the point of view of oil and gas sectors is going through a very, very rough patch in recent times, and the demand has come down substantially. That has put a lot of pressure on our capacity utilization as well as on the margin, and that is what was reflected in the number what we have seen. But our feeling is, it will eventually recover in USA, and that's all the more reason we talked about just now that we will be expanding in the European market for oil and gas chemicals as well. So, that is the reason we are expanding, and we are going beyond, because we do not want to put all the eggs in the same basket. We want to kind of derisk the whole thing and therefore we are looking at beyond U.S. market to Europe.



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- Sanjesh Jain:** Raj, just on the operating cost, of Rs. 14.50/Kg is the operating cost this quarter and for last many quarters if we see, we were hovering around Rs. 15- 16. There is a genuine reduction in the cost, it's more of an operating leverage which is playing out here, or you feel that we will again go back to Rs. 15-16/Kg?
- Raj Gupta:** So, it is largely operating leverage, plus, with all the investments that we have made in new business, we are also looking at the scope to reduce our cost wherever possible. But it is mostly the function of operating leverage, with higher capacity we are getting that advantage.
- Sanjesh Jain:** Very clear. Last question from my side on the battery chemical side. How has been the response, have we started switching to the battery OEMs? And are they excited with the scope of integrated silicon, graphite in their battery? Anything on the market side will be really helpful.
- Raj Gupta:** I think we are constrained to talk. There are some developments.
- Kaushik Roy:** Okay, there is a lot of excitement in the market, and we are in discussion with some of the leading battery and auto manufacturers. But at this point in time, we are a little constrained to share those names because of the confidentiality agreement.
- Sanjesh Jain:** No, no, I am not looking at names, as in have they started integrating it, have they started looking or putting it in a battery?
- Kaushik Roy:** Yes, absolutely. It has already started so that joint development and how to use it, what is to be done etc., the discussions have already started.
- Raj Gupta:** Sanjesh, we are very confident that once we get the pilot plant, in a year's time we will have approval from most of the targeted consumers.
- Kaushik Roy:** And these are some of the global names. Unfortunately, we are constrained and not able to share with you, at an appropriate time we will do that, but these are all big global names from auto and battery.
- Raj Gupta:** Sanjesh, what we will also do, maybe at a later stage, we will arrange investor interaction with some of the scientists who are part of this project. I think that will provide you with more understanding of the technical part of it and the feasibility part of the project.
- Sanjesh Jain:** We would love it. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investment. Please go ahead, Sir.
- Bharat Seth:** My first question is related to the carbon black. Raj, when we are talking of 10-11% of CAGR growth for next 4-5years, within that, if you can give some color how much will be the specialty growth and performance chemical?



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- Raj Gupta:** Sir, the whole pie has the opportunity. So, while speciality we will be maintaining about 10,000 tonnes of volume addition every year, in rest of the portfolio also we are going to add similar kind of growth. So, when we say 10-11%, both the pies are going to expand by the same. The only thing is that the base in specialty is smaller currently, so specialty will become almost double in the next four to five years' time, but this portfolio will increase by about 60-65%. So, the volume growth is on the entire pie.
- Bharat Seth:** And performance chemical side, if you can give a little more color, which I generally believe that has a little higher profitability than the tyre grade. Is that a fair understanding?
- Raj Gupta:** Yes, that's a more fragmented market and carries better margins, about 25% more compared to tyre, which is bulk business for us.
- Bharat Seth:** So, that will continue to grow at 10-11%, or there is a room to improve the growth percentage?
- Raj Gupta:** Yes, more or less, I think the share percentage between performance and tyre grade segment will remain more or less similar.
- Kaushik Roy:** Bharat ji, tyre and this performance chemicals market are pretty matured and have a larger base. So, what Raj talked about in 10% plus will naturally for these two segments will be around that, whereas the speciality since the base is smaller, in the percentage terms it will look larger. The growth will look little larger in percentage terms. But as we mentioned, every year we are adding 10,000 MT, like this year we are going to close possibly around 60,000-65,000 MT, we will be adding another 10,000 MT. So, percentage number wise it will be little more. But look at the whole pie, the point here is that we will be growing in all these three. Percentage don't look at because that's not the right measurement, it depends on the base and the size. And speciality we are growing, it is comparatively smaller base, so therefore the percentage will look a little bigger.
- Bharat Seth:** Now coming onto this Aquapharm, when we spoke about this Rs. 600-800 crores kind of CAPEX over five years and where we are seeing that phosphonate, polymer as well as green chelates has a better profitability and better growth prospect. So, this capital allocation, if you can share some how much CAPEX we are going for this polymer and green chelates side?
- Raj Gupta:** See, these are all part of our innovation, Bharat ji. Now, the margin profile, even in the conventional business of Aquapharm is good. So, we are not saying that these are going to be an exceptionally higher margin in this business. But then as a business, we have to constantly move up the value chain and keep the business relevant for the customers. So, all the renovations which are happening are towards portfolio expansion, and also cater to part of the market currently to which we are not catering.
- Bharat Seth:** And last question, Raj, for you, normally when the oil price is low for carbon black, I mean, the working capital turns down substantially. So, anticipating oil will remain in \$70 to \$75 broad range, how much savings or additional cash flow can be generated from working capital?



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- Raj Gupta:** It's a very simple math. So, crude falls by 10%, and our working capital requirement goes down by around 8%. So, that's a very simple calculation. But then that's assuming that we have the same turnover. We are expanding in terms of volume and that will also reflect on our top line. So, the savings in working capital will also depend on the overall turnover that we are generating from business. But, yes, the capital efficiency will improve when crude comes down.
- Moderator:** Thank you. The next question is from the line of Krishnan from JM Financial. Please go ahead, sir.
- Krishnan:** Wish you very Happy Diwali. Firstly, on carbon black, what was the reason for the sequential dip in overall sales volume, especially the exports?
- Raj Gupta:** So, typically, Krishnan, what happens, most of the tyre companies take maintenance shutdowns during monsoon season in India. So, that was one reason. And this is usual, I mean, every year you will see this happening. And also, last quarter the availability of containers was a challenge, the freight rates also moved up because of that so it also impacted our volumes in overseas markets.
- Krishnan:** So, basically some of the volumes were affected due to the container availability and some due to, let's say, maintenance shutdowns, is that correct?
- Raj Gupta:** Yes. And overall capacity utilization was still 94%. So, we are operating at almost full capacity.
- Krishnan:** And you expect going forward kind of this coming back let's say 154 KTPA and higher or do you expect this to be in the similar range of 148-149 KTPA?
- Raj Gupta:** I mean, the idea is to utilize full capacity, and we know the scope is there in market. See what is happening is, now we are left with very little capacity cushion, and therefore we can't commit capacity to the new customers or even for the same customers we can't commit more capacity to them. So, we are awaiting new capacities to be available. And therefore, we are also speeding up our project work. So, initially we had given a timeline of fourth quarter for this 50,000 tonnes capacity. We kind of increased the pace of project work, and now we are targeting commissioning within this quarter. So, that will also give us some more capacity cushion. But it takes time between capacity to come up and then getting requisite approvals from customers and being able to ramp that up, utilize that. But the idea is to have more capacity with us so that we can also get into more contracts with our stable customers.
- Krishnan:** And secondly, I think Kaushik da mentioned that there was some roughness in the oil and chemical side, so the utilization was lower. So, what is the capacity utilization you are targeting in Aquapharm for the second half and in FY '26?
- Raj Gupta:** Second half, it will improve marginally. We currently are at about 75% on overall basis, India and USA all combined. We believe that by fourth quarter we should reach around 82-83%. We are targeting a little more but we have more confidence level at that level. But the idea is to have



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full capacity utilization. I mean, this 75- 80% is not acceptable in our system. There's a fairly large market and all it takes is to spread out and identify opportunities where these are. So, our target is to reach full capacity utilization. God willing, we will achieve that in next few quarters, four, five quarters.

**Krishnan:** Got it. Thank you so much for patiently answering my questions. Wish you all the best for the coming quarters. And Happy Diwali.

**Moderator:** Thank you. The next question is from the line of Madhav from Fidelity Investment. Please go ahead, sir.

**Madhav:** Sir, I just had one question. Basically, if you could just share where we are in the carbon black demand supply cycle from a next three-year perspective. There was quite a lot of disruption which happened in Europe because of the Russian supply and then China obviously had become cost uncompetitive in this space. So, if you could just share some view from a 3-5 year perspective where we are today. Thank you.

**Raj Gupta:** We believe that, see, China was dominant and will remain prominent because they have a large market, captive market only in their own country. They account for almost 35% of global carbon black consumption. So, the carbon black companies in China, they will continue to produce and continue to sell. And when they produce, they will also have some surplus that they will want to sell outside their country.

Now, so far as cost is concerned, their cost structure is not what it used to be 10 years back. And China's stance also is today that we will sell to outside China customers, but not at a price at which they expect, but at a price which Chinese companies want. So, it has created kind of a level playing field. Having said that, not many companies in China are making money in this business, and therefore possibly they will consolidate further and we will not see too much capacity coming up there. So, the market size will remain more or less constant or it will consolidate further.

Russia is facing sanctions from entire Western European Union. Now, they are selling this capacity elsewhere in the world, mostly in Asian countries. But what will this situation do to them is, this will kind of reduce their further investment in capacity. Globally, only Russia and China had advantage in terms of cost. China because of scale and because of coal tar availability, and Russia because of its own crude. Now, if China is consolidating or not adding more capacity or not making money in this business, and Russia again is not making money in this business and they are also kind of not adding capacity, the opportunity for the rest of the world becomes very large. Next three to five years we are looking at, with a lot of confidence, that it will be a large opportunity for Indian manufacturers and a rapid growth phase for us.

**Madhav:** Is there any other country in the world where carbon black capacity is being added today? Like I think Indonesia, Malaysia used to add some small capacity earlier, but where is the supplier



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really coming to service the incremental demand? Because like you said it's a 15 million tonnes market and we might need 4 lakh tonnes maybe each year, incremental. So, who is building the capacity today?

**Raj Gupta:** Other than India, today India and China, I mean, when we talk about Asia, most of the other countries are marginal in terms of capacity. So, while small, small pieces of capacity will keep coming up, because these markets are also growing in terms of their local demand. If you look at say Indonesia or Malaysia or Thailand, these economies are also growing at a rapid rate, almost the same growth rate at which India is growing. So, they will have their incremental demand locally. But in terms of catering to global demand, they do not have that level of surplus or they are not even planning for that level of capacity addition. So, Indian manufacturers will have an edge over their other Asian counterparts.

**Moderator:** Thank you. The next question is from the line of Khush from Electrum PMS. Please go ahead Sir.

**Khush:** Sir, I had one question, what kind of growth we are seeing in Aquapharm considering the CAPEX from FY '26, once things are back to normal, what kind of top line growth and sustainable EBITDA margins?

**Raj Gupta:** Growth in terms of top line, we believe that we can grow at around 17-18% from FY '26 onwards. And our margins, we believe that from next year itself we will have around 20% EBITDA margin, which will gradually improve towards 25% by FY '29. So, we will see an annual increase.

**Khush:** And sir, just last question. So, we have seen exports grow year-on-year by 22%. So, can we assume that some contribution was due to increased sale in European region because of the Russian ban?

**Raj Gupta:** Yes, of course. Our share of sales to the European markets has gone up. In FY '22 it was only about 3.5-4%, currently we are doing close to 21% in those markets and the scope is much, much better, we are constrained by capacity.

**Moderator:** Thank you. The next question is from the line of Aditya from SMIFS Limited. Please go ahead Sir.

**Aditya Khetan:** Sir, my question is on to the battery chemical's part. Sir, you had mentioned that, so this battery chemicals business will generate around Rs. 2,000 crores of top line. Sir, what are the assumptions we are taking here in terms of the realization?

**Raj Gupta:** We are considering the \$100/Kg realization which is around one-third of the current market price of similar material.

**Aditya Khetan:** And sir, this is on to the capacity of 2,000 tonnes, right, sir?





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- Raj Gupta:** That's correct.
- Aditya Khetan:** And sir, similarly, how much would be the EBITDA margins, like you have stated, so gross margins would be around 65%?
- Raj Gupta:** Could be around 50%. Because it's a small capacity, we do not see any kind of elevated fixed overhead structure here. It will be a very lean structure. So, around 50% should flow to EBITDA level.
- Aditya Khetan:** And sir, I believe, eventually we are talking of around, earlier we were stating that this capacity was around 3,000 tonnes sir. I believe in our earlier meeting you had mentioned 3,000 tonnes, now that size has been reduced to around 2,000 tonnes?
- Raj Gupta:** No, we are saying that our first plant will be 2,000 tonnes. Of course we will have to add another plant of equal size, and therefore by 2029 we should be doing around 2,000-2,500 tonnes at least, it can be even more. But the numbers that I am sharing is for the first plant, first capacity which comes up.
- Aditya Khetan:** And from this pilot project only we would be making around Rs. 400 crores to Rs. 500 crores of EBITDA?
- Raj Gupta:** No, pilot plant is much smaller, and this will be primarily used for sampling purposes.
- Aditya Khetan:** Sir, Rs. 2,000 crores of top line, so roughly 50%, so Rs. 1,000 crores of EBITDA for the JV, and Rs. 500 crores for the pilot plant itself.
- Raj Gupta:** No, Aditya, you are confusing between the two. So, we are initially setting up a pilot plant which should come up in next 6-7 months' time, we will use that for sampling purpose, that is not meant for commercial purpose. Parallely, we are also setting up a commercial plant of 2,000 tonnes which should come up in FY '27, and that plant we will utilize for commercial sale.
- Aditya Khetan:** So, sir, so that technology, we have already tied up with the technology, so what are the key challenges you see on to this? So, if suppose we ramp up from 2,000 tonnes to around 10,000 tonnes, any sort of key challenges you foresee?
- Raj Gupta:** The market is currently growing at about 25% CAGR, it's about 15,000 tonnes market for this material. Very few producers globally. No one is very sizeable in this space. And the price of this material is currently prohibitive. As I said, \$300/Kg, which kind of also restricts the growth potential. We bring down the price, the market, I mean the growth can explode from the current level. We have seen that kind of movement happening in the EV space.
- And EV is not going to be the only industry which will create demand, the power saving requirement across countries that is increasing, and I think that will be one of the biggest



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contributors to demand for this material. So, currently, of course, we are focusing on the first plant and utilization thereof. But I think in this space the opportunity is much, much larger.

**Aditya Khetan:** Sir on to that 12,000 tonnes, suppose if we commercialize it by 2030, so we can assume some sort of Rs. 2,000 crores of incremental EBITDA only from this project?

**Raj Gupta:** Yes. So, if we put up another 2,000 tonnes capacity, at full capacity utilization level it should be giving us the same level of bottom line.

**Aditya Khetan:** Sir, onto the Aquapharm, is there any split between the value added and the commoditized segments like the phosphonates and the chelates into the segmental basket, how they fit into the commoditized and into the value-added side?

**Raj Gupta:** Aditya, nothing is commoditized. I mean, this entire portfolio is very high level of complex chemistry. What we are doing is trying to create more sustainable material. So, that will be further moving up the value chain. But that doesn't make the existing portfolio or any part of the portfolio commodity. And all the businesses will have to constantly move up the value chain. Today what is relevant, what is speciality, tomorrow it might be treated as commodity as supply increases or as new technology comes in. The businesses will have to keep moving up the value chain and this green chelates and polymers, these are all a step towards that direction.

**Aditya Khetan:** And sir, the backward integration into the yellow phosphorus, so when is the timeline we are planning to complete that?

**Raj Gupta:** We are not doing backward integration into yellow phosphorus. Yellow phosphorus is a mineral, right, so it is mined. What we are doing is we are setting up a processing or filtering plant, right, sir?

**Kaushik Roy:** Right. We are going to source yellow phosphorus; we are trying to tie up with some of the miners and they will process and make it usable for Aquapharm. That's the thought process. Basically, from rock phosphate to yellow phosphorus through proper process, that is what we are looking at.

**Raj Gupta:** So, part of the process, we will be doing backward integration for, but it remains a mineral, it is mined, so we cannot get into mining.

**Moderator:** Thank you. The next question is from the line of Rohit from Centrum Broking. Please go ahead, Sir.

**Rohit:** Sir, first question is on the battery chemical side, on the additives front. So, you said that the pilot plant will be set up over the next six, seven months. So, in terms of scale up, would there be any challenges that we have faced in the initial lab setup from kilograms to a few tons? And even when we set up a commercial plant, will there be any challenges that may come up and that may probably change the dynamics of the cost and the margins? Thank you.



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**Raj Gupta:** Challenges will always be there because producing something at lab scale and at commercial level will have different issues. Controlling the chemistry at such larger scale, that will obviously pose some challenges. But having said, at the lab level, when they increase the capacity or the reactor size from 2 liters to 20 liter, they got the same result. And therefore, we are very confident that we should be able to replicate the result at a much larger scale also.

Also, the scientists who are involved here in this whole process and who will be engaged in this whole setting up of plant and also in the initial production process, they are of very high pedigree. One of them even got nominated for a Nobel Prize. So, that kind of improves our confidence level further. And we have ran some close to 1,200 tests on the material in our own lab in Belgium and also in one of the external labs in Germany, and the results were very encouraging. So, that gives us confidence that we should be. Challenges will be there, I am not saying that it's the same cup of tea producing at small and large scale.

**Rohit:** Sir, second question is on Aquapharm. So, there are predominantly three segments. What could be the breakup of contribution from each of these segments? And an alike question to that, you also mentioned that we want to go up the value chain and make more sustainable materials. So, beyond these three segments or verticals, are we currently working on anything new which is in the pipeline and where it could be a promising new segment for us? Thank you.

**Raj Gupta:** So, I mean, the products that we are generating or producing under different segments, these are interchangeable, and these are being used in more than one industry. So, like the phosphonate-based products that we are manufacturing, they also have usage in oil and gas, right. So, therefore, the margin profile remains more or less similar, I mean, there is not much difference at the gross margin level or at, for that matter, at EBITDA level between the different segments to which Aquapharm products cater to. Coming to the second part of the question, Mr. Roy will answer.

**Kaushik Roy:** The revenue split is roughly between oil and gas chemical and phosphonate, it is close to 85% between the two, and the rest remains between green chelates and polymers. Now, talking about going up the value chain. Now, as Raj mentioned a little while back, even phosphonate is also a highly engineered product, it is not a very simple product, it is not a commodity, let us accept that reality. It is an engineered technical product. But the objective is to move towards green sustainable product. So, that is what we are focusing on right now more through the root of polymer and green chelates. And there are different grades within this overall vertical of polymer as well as green chelates. So, first, immediately for the next couple of years we are looking at developing newer products in these two categories, polymer and green chelates. And there is a lot of headroom to grow there, because the market share of Aquapharm in these two particular segments is in single digit, and we clearly see there's a lot of opportunity to grow across the globe. The immediate focus will be that. And thereafter, in parallel, we will keep focusing on other opportunities. So, we will come back to you at an appropriate time.



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**Rohit:** Sir, just on the Aquapharm front, given that there is the amount of growth in these segments plus the margins seem to be higher. I just wanted your perspective on competition maybe from outside, particularly from China or any other geographies that may come up in future, given the opportunity and probably the margin dynamics of the segment. Thank you.

**Kaushik Roy:** So, fine, let them come up, what is the worry? We are equally efficient and capable. So, we are not too worried about Chinese or any other player. So, Aquapharm globally in phosphonate they are number one, number two. And we have enough capability. So, we are not too worried, competition may come up, it is fine, absolutely fine.

**Moderator:** Thank you. That was the last question. On behalf of ICICI Securities, I conclude this conference. Thank you for joining us. And you may now disconnect your line. Thank you.