“Oriental Carbon & Chemicals Limited

Q3 and 9M FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q3 & 9M FY2021 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 date of this call. These statements are not the guarantees of future performance and involved 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 and Joint Managing Director of Oriental Carbon & Chemicals Limited. Thank you and over to you Mr. Goenka!

Akshat Goenka: Good afternoon and a very warm welcome to everyone. Along with me I have Mr. Anurag Jain, our CFO and SGA, our Investor Relations Advisors. Before we begin I hope you and your loved ones are safe and doing well in these unprecedented times. I hope you have received the result and investor presentation by now. You can view the same on our company website. I am happy to report that we have witnessed a healthy pickup in sales momentum post COVID disruption, which has helped us to deliver a strong financial and operational performance across all parameters in Q3 FY2021 with a topline growth of 33% YoY and QoQ in Q3FY21. Post the reopening of the economy the tyre industry has witnessed strong demand growth in replacement segment driven by multiple factors like pent-up demand, shift towards personal mobility, buoyant rural economy and increasing vehicle utilization trends. Restriction on import of tyres, higher demand from road construction, mining and e-commerce segments have further propelled demand though it remains to be seen how much of it is due to pent-up demand and how much of the growth is sustainable. We are pleased to inform you that operations at both our plants have attained normalcy and utilization levels have gradually risen. As indicated on our previous two earnings calls we envisage a delay in our capex plan on account of shutdown period during the pandemic and unavailability of labour thereafter. However, post the unlocking work has been progressing well and we expect the phase one of the 5,500 tonnes per annum insoluble sulfur line and the 42,000 tonnes per annum sulfuric acid line in Dharuhera to be commissioned by July 2021, which will spur the next level of growth for the company.

We are committed towards developing new products and offering customized solutions for our customers. We are long-term suppliers to most of the prominent global and Indian tyre companies. We are focused on leveraging a strong execution track record to help us increase the wallet share with existing customers. To conclude this has been a good quarter for us. We expect the sales momentum to sustain going forward with rising auto and tyre capacities domestically and globally in the next decade, we are well positioned to capitalize on the enormous opportunities and expand our market share further. The Indian tyre industry is embracing new trends to meet the changing market dynamics. There is growing emphasis on lowering emission levels and reliance of fuel efficiency vehicles. The onset of BSVI emission on last year, has accelerated the trend towards more efficient radial tyres as against traditional bias tyres, especially in the LCV and TBR segments, which remains underpenetrated. We expect that with increasing urbanization, penetration of vehicles in rural and urban areas, shift towards radialization and increasing investments in auto and tyre industry will in turn increase the demand in insoluble sulfur going ahead. We have been focused on consolidating a dominant position in the Indian market while increasing our penetration into high potential geographies like North America. We are focused on developing high quality grades of insoluble sulfur through continuous investments in technology and R&D. Now I would like to hand over the line to Mr. Anurag Jain to update you on the financial performance of the company.

Anurag Jain: Thank you Akshat. I will take you all through the standalone financials of the company. Total income for Q3 FY2021 was up by 33% YoY to Rs.109 Crores as compared to Rs.81.9 Crores in Q3 FY2020 driven by recovery and demand post the reopening of the economy. EBITDA for Q3 FY2021 stood at Rs.42.8 Crores as compared to Rs.24.8 Crores in Q3 FY2020, a growth of 72% YoY. Our sustained thrust on cost control has led to operational efficiencies and resulted in strong EBITDA margin for Q3 FY2021 of 39.3% up by 900 basis points YoY. However, due to upward trend in raw material prices the next quarter EBITDA margin is expected to be in the early 30s.

Going forward we expect our long term EBITDA margins to be in the range of 28% to 32%. Profit after tax for Q3 FY2021 stood at Rs.28.4 Crores as compared to Rs.16 Crores in Q3 FY2020, a growth of 78% YoY. Our PAT margins for Q3 FY2021 improved by 60 basis points to 26.1%. To quickly summarize, the nine-month numbers total income for 9M FY2021 stood at Rs.237.8 Crores compared to Rs.264.7 Crores in 9M FY2020, EBITDA stood at Rs.85.3 Crores as compared to Rs.79.5 Crores in 9M FY2020, a growth of 7% YoY and PAT stood at Rs.50.2 Crores as compared to Rs.54.4 Crores in 9M FY2020. With this I would like to open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Congratulations on your numbers. Just couple of questions. is the higher revenue and profitability that we have observed in this quarter is driven by pricing increase or by higher utilization? How should we be thinking about it and how should we be looking at it going ahead into Q4 FY21?

Akshat Goenka: As far as the guidance for Q4 is concerned, Mr. Jain already gave it in his opening remarks where we are expecting the EBITDA margins to be in the early 30s in Q4. Q3 was I would say driven largely by two things, one is optimum capacity utilizations and secondly by raw material prices, which have now started going up drastically.

Ritesh Gandhi: In terms of capacity utilization, how much would we be our existing capacity?

Akshat Goenka: In Q3 FY21, we were in the 90% levels approx.

Ritesh Gandhi: You would expect that to continue in the Q4 FY21?

Akshat Goenka: Roundabout that it is a very dynamic situation and orders are coming in month-to-month, but the capacity utilization as of now in Q4 is expected to be good even though not as high as Q3 FY21.

Ritesh Gandhi: Got it and just to understand for the incremental capacity, which we will be adding and it comes on stream, how long will overall ramp up take and would there be operating revenue benefits as effectively then when it comes in and how should we think about quantifying it from that perspective?

Akshat Goenka: There are three ways to look at it. Firstly, obviously something that one cannot escape is that there will be depreciation and interest that will come about, but as far as the EBITDA level is concerned, we expect almost no fixed cost increase on account of the new capacity; it will be very marginal, so operating leverage would obviously be very high. As far as the ramp up is concerned from a technical standpoint it can ramp up very quickly, it all depends on how the sales ramp up and the allocations come in, which we are working on. It is a bit too soon to say whether it will take six to nine months or what it would be. I think it is a bit early to comment on that.

Ritesh Gandhi: Thanks. I will get back in queue and all the best.

Moderator: Thank you. The next question is from the line of Aditya Khetan from East India Securities. Please go ahead.

Aditya Khetan: Thanks for the opportunity. Sir my first question is on the EBITDA margin, on an early basis if we are witnessing 800 basis points jump in the EBITDA margin and sequentially the margin has been maintained, so if you can give a rough spend on the spreads of sulfur and coating oil with insoluble sulfur, so that would be helpful to understand?

Anurag Jain: What we are looking at today, is that roughly about 10% to 14% increase in raw material costs overall in Q4 FY21 over Q3 FY21 and again at least before it stabilizes there could be some more increase going into Q1 of next year. After that we think that the market should stabilize and it should come down. So that is as far as the raw material part is concerned. As far as the margins are concerned, I think we have already said that in Q4 we are expecting our EBITDA margins to be in the early 30s and going forward earlier we used to say that our EBITDA margin should be in the late 20s now we are seeing that it should be between 28% and 32%.

Aditya Khetan: As you said that we are witnessing some increase in the raw material cost in Q1 also, so are we also able to negotiate with our clients to increase the insoluble sulfur prices or the trend is not visible as of now?

Akshat Goenka: The trend is not visible as of now.

Aditya Khetan: Okay, so that means for the next quarter we can expect margins to be around 27% to 29%, would that be a fair assumption?

Akshat Goenka: No, we have already said in the opening remarks that in Q4 we expect margins to be in the early 30s.

Aditya Khetan: Just would like to know how is your North America market shaping up right now? What is the opportunity post lockdown that you have witnessed? Is there any improvement in terms of supplying the consignment or is there still shortage of shipments, which is affecting us? what is the market size of North America?

Akshat Goenka: The market size of North America is around 40,000 tonnes and from a technical standpoint we have seen very good traction in North America and things are progressing. Now we still need to get the actual allocations, but the existing suppliers that we have, have been going smoothly even though the freight rates have gone up and availability is a challenge, but we manage.

Aditya Khetan: Are we seeing any new capacities like Brownfield expansion coming up by Eastman Chemicals or Shikoku Chemicals in Japan, any of the competitors expanding their capacity?

Akshat Goenka: Eastman and Shikoku are not expanding.

Aditya Khetan: Okay, none of the competitors are expanding?

Akshat Goenka: Sunshine Chemicals has announced an expansion that is the only thing that we are aware of.

Aditya Khetan: What would be the full year tax rate guidance for FY2021 and consequently for the next two years? what can we take as a number on that?

Anurag Jain: Our tax payout would be again on MAT for this year and next year also.

Aditya Khetan: So, we will get the MAT benefit, so can we expect around 20% to 22%, we can be in that range?

Anurag Jain: We will be paying taxes on MAT basis this year and next year also.

Aditya Khetan: that's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My first question is the Rs.100 Crores revenue run rate that we see and we had a similar number in FY2019 so is it fair to assume that the existing capacity will largely be fully utilized at Rs.100 crore revenue run rate? Do you have any more room to post incremental utilization on these numbers?

Akshat Goenka: I think that this Rs.100 Crores run rate we are in the 90s.

Pritesh Chheda: The scale up would of more than that or is this usually the run rate?

Akshat Goenka: Plus minus here and there can happen, but at this run rate we are largely at optimum. there would be obviously 5% more room there, but largely optimum capacity utilization is Rs.100 Crores plus run rate for the quarter.

Pritesh Chheda: My second question is when the new lines come in which is 5,500 tonne two lines, which you are adding in phase I and phase II, so does it mean that the margins directionally should go higher because of the operating leverage coming up on those lines plus the historic margin that we have?

Akshat Goenka: We have already revised our margin guidance upward in this call to 28% to 32% from the earlier stated provision of 25% to 28%.

Pritesh Chheda: Then what is the depreciation number that can be added on the entire capex in two parts?

Akshat Goenka: The capex is around Rs.150 Crores, depreciation number would be around Rs.6 Crores.

Pritesh Chheda: On the total capex?

Akshat Goenka: That is annualized not on a quarterly basis.

Pritesh Chheda: Rs.215 Crores which you have scheduled?

Akshat Goenka: Right now Rs.150 Crores is coming on and then the balance Rs.60 Crores to Rs.65 Crores is for the second phase.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Thank you and congratulations on good set of numbers. We are currently 10% of the world capacity and we have slowly inched up and after this 11,000 tonnes expansion we will be 11% to 12% of global market share. Trend is that demand is growing by 2% to 3%, can we continue to increase our market share, what is your view on that? What is you thought process that by 5 to 10 years down the line, what market share can we aspire for ?

Akshat Goenka: I think it is quite far to comment on by how much market share would increase after these current expansions because even after the current expansions our capacity will be close to 47,000 tonnes and if you look at the FY2020 sales numbers they would be very low compared to 47,000 tonnes. So even if you go from today to actually selling out 47,000 tonnes that is a massive growth rate in the next three to four years. So right now we are just focused on that.

Anuj Sharma: Alright. My second question is next suppose in next 12 to 18 months we have seen 15% of incremental capacity would be getting added. how many instances in the past have we seen that this kind of capacity additions have happened and how have you managed its pressure on the realizations, though in the last call you had mentioned it won't impact , but just your thoughts as to how it has behaved historically?

Akshat Goenka: If you look at it the incremental capacity that is coming on now as a percentage of overall global capacity it is much lower than what used to come earlier. As in absolute terms it was same amount, but in percentage terms it is much lower, so I do not think that this incremental capacity on a standalone basis should put any pressure, it is all actually linked to the end market demand, if demand is robust everything will be fine.

Anuj Sharma: In continuation to that, one of our competitors has been very efficient in capex, but our Chinese competitor will be putting up the 30,000 tonnes at 40% of our capex cost?

Akshat Goenka: Figure of 40% of our capex cost I do not think that is correct at all.

Anuj Sharma: So they seem to be putting 30,000 tonne at Rs.305 Crores and our capex is approximately Rs. 215 crores for 11,000 tonnes, so 45% to 47% may be less than half?

Anurag Jain: I think there is some mistake in the number. Secondly our capex includes sulphuric acid plant expansion also and as far as I know their capex does not include the common utility costs, so it is not an apple-to-apple comparison if you look at it that way.

Akshat Goenka: From Rs. 215 you have to actually remove around Rs.30 Crores to Rs.35 Crores which is for sulphuric acid, so this comes to Rs. 180 crores for insoluble sulphur.

Anurag Jain: Alright. I will come back in que for any other questions. Thank you.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from Monarch Networth Capital. Please go ahead.

Anubhav Rawat: Good afternoon Sir. Just couple of questions. Given the supply glut in insoluble sulphur so what is the plan for phase II, will it start immediately after phase I? What is the thought process on that?

Akshat Goenka: I think we have another six months to decide because this is getting commissioned in July, so the earliest we would start is July. I think today we do not need to decide or commit anything. Let us see how the next six months pans out and this level of demand continues, increases or subsides and then July would be the right month to actually even start venturing a call. As we can start at a day's notice, there is no pre-work required.

Anubhav Rawat: Understood Sir and can you give a split between the domestic and exports revenue for this quarter?

Anurag Jain: About 60% is from export and 40% is from domestic.

Anubhav Rawat: Fair enough Sir. What would be our gross debt and cash on books as of 31st December, 2020?

Anurag Jain: The total borrowing stands at about Rs.163 Crores as on December 31, 2020, this includes working capital borrowing of ~ Rs.40 crores. and the total investment would be around Rs.150 Crores. This includes cash as well.

Anubhav Rawat: Okay, perfect Sir. Thank you. I will come back in the queue.

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

Shashank Kanodia: Good afternoon Sir and congratulations for the good set of numbers. Sir I have two set of questions. First is you aspire of 10% market share in the North American market, so could you please guide us what is the market share now and are we on track for trajectory in the next two to three years?

Akshat Goenka: Yes we are certainly on track to hit 10% plus market share in North America in the next two to three years. Our current market share remains in single digit.

Shashank Kanodia: Would it be roughly 5% to 7% odd?

Akshat Goenka: Less than 5%.

Shashank Kanodia: If you can help us with the sulfuric acid prices for the quarter and sequential movement. I think there should be good amount of gains rising out of rise in sulphuric acid prices as well to us, so any colour that you can share?

Anurag Jain: Sulphuric acid prices are very dynamic and they usually change with the change in the sulphur prices. For example, now since the sulphur prices have started going up and hence the sulphuric acid prices have started going up. So there is nothing fixed about sulphuric acid price it varies with the sulphur prices.

Shashank Kanodia: In Q3 FY21 versus Q2 of last quarter, were the prices moreover in terms of 1.5x to 2x?

Anurag Jain: Q3 was more than Q2 yes.

Shashank Kanodia: What is the quantum of increase?

Anurag Jain: They were higher by about 30%.

Shashank Kanodia: Lastly on the phase II of capacity expansion on insoluble sulphur, at max by when will you commission it? Will it be by end of FY2023 or it can even go beyond that?

Akshat Goenka: Phase 1 is coming in July 2021, so I would say the earliest it would commission is December 2022. This is the earliest and not the latest as we would take around 16 to 17 months from the time we start of and we will not start of before July/ August at the earliest.

Shashank Kanodia: Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question. For phase 1 expansion, due to current environment and lockdown do you see some asset turn increasing for you at a peak level?

Akshat Goenka: No because I think the cost is still in control.

Nitin Gandhi: How much peak revenue is possible with current price?

Anurag Jain: Expanded capacity peak revenue should be around Rs.65 Crores to Rs.70 Crores.

Nitin Gandhi: Coming at margin of 28% to 30% EBITDA margin for it. Am I right?

Akshat Goenka: 28% to 32% is the guidance of the company as a whole.

Nitin Gandhi: Okay, for this expanded capacity it will be comparatively higher right?

Akshat Goenka: We should not look at it that way, but theoretically what you are saying is right.

Nitin Gandhi: Okay, thanks.

Moderator: Thank you. The next question is from the line of Dhruvam from HDFC Fund. Please go ahead.

Dhruvam: Thank you so much. Just one question, all others are answered. On the tax rate you mentioned that you will be under MAT for the next two years, so that effectively is about 18% odd right?

Akshat Goenka: That will be the payout correct.

Dhruvam: Because prior to FY2020 you were paying about 27% to 28% effective rate, which was well above the MAT rate, so has something changed that we are in this revised low rate now?

Akshat Goenka: We have never paid above the MAT rate. The P&L obviously reflects a different picture.

Anurag Jain: P&L is the provision that we made which is on the levied rate and then the difference gets adjusted in the deferred tax.

Dhruvam: The effective P&L rate will be around 25% and the cash impact will be around 18%, is it?

Akshat Goenka: Yes.

Dhruvam: Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital Advisors. Please go ahead.

Kunal Mehta: Thank you very much for the opportunity. I just wanted to understand the margin bracket, which we are guiding for now is 28% to 32%, when I look at the historical margins we have been somewhere in the region of 26% to 28%, so by giving this margin guidance for the next year or two are we saying that this was the capacity utilization, which we are running at, is that in a favorable domain? But based on the capacity utilization that we continue to do in the next year and quarters, I am excluding the new capacity just on the existing capacity, would that earn us this level of margin of ~28% to ~32%?

Akshat Goenka: Even historically, margins have been around these figures. We have been guiding on lower margins which is what we always do, but the actual achieved has been higher.

Kunal Mehta: Yes, I was looking at January quarterly margins and I could see that in most quarters we have reached somewhere around ~27% to ~ 28%. that's been the new trajectory which we have?

Akshat Goenka: Margins of 28% to 32% guidance we are giving dependent on capacity utilization being robust.

Kunal Mehta: Secondly just wanted to understand on capacity expansion, last time the capacity coming up at Mundra I think it took us 18 to 24 months to use it to full scale. For this capacity of 5,500 in phase I do you expect it to be used in the similar timeframe and at least 15 to 18 months for it to reach full 5,500 tonnes?

Akshat Goenka: Last time when that capacity came in we were instantly hit by a global downturn in the auto market in 2019 and then 2020 was impacted by COVID. So it would not be like-to-like comparison and also as a percentage of increase in capacity this one would be lower than the earlier time when it came in Mundra. So I would expect it to be much better than the ramp up in Mundra.

Kunal Mehta: That would be helpful and just last question Sir from my end. I was looking in terms of sulfur prices and I think this quarter I saw as we reached the end of last quarter around December 2020 last week I think the prices have started to fall off. I am talking about the finished product prices and the raw material prices actually were inching up and they were on the higher side as compared to earlier quarters where we were able to get good inventory on a cheaper price. So I just wanted to understand this margin guidance which you have given for Q4 it is also including the lower finished products prices right?

Akshat Goenka: That is correct because in Q3 our EBITDA margins are close to 40% level and we are guiding in Q4 for them to be in the low 30s, so we factored that in.

Kunal Mehta: Thank you very much and all the best for the coming years.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: What should be the net global supply change, which will happen in insoluble sulphur post the capacity increase of 11,000 tonnes that we have planned and 30,000 tonnes that Sunshine has planned along with few that are expected to close down?

Akshat Goenka: I would say the net increase would be around 20,000 tonnes If you include our 11,000 tonnes, Sunshine’s 30,000 tonnes. Along with the reduction of the Japanese plant or Eastman that is around net-to-net increase is around 20,000 tonnes.

Pritesh Chheda: It is about 6% of total demand as of now okay. My second question Sir, by when is the phase I going to get operational, which was earlier, stated for Q1 of FY2022?

Anurag Jain: yes July-21 is what we are targeting.

Pritesh Chheda: So it is on track right?

Anurag Jain: Yes.

Pritesh Chheda: Lastly could you give us a ballpark number of sulphuric acid as a percent of revenue?

Anurag Jain: 6% to 8% currently now, once new line comes up and if that also ramps up well then it could be higher.

Pritesh Chheda: Will 42,000 tonnes of sulphuric acid also come in phases right?

Akshat Goenka: No, the entire thing is coming now in July 2021.

Pritesh Chheda: Sulphuric acid is coming immediately?

Akshat Goenka: Yes, it is part of the upfront capex.

Pritesh Chheda: When the two capex is put together, what should be the peak revenue based on the realizations which are as of now, so you mentioned Rs.70 Crores is peak revenue in phase I. Phase I & Phase II put together should be approximately how much peak revenue?

Anurag Jain: Phase I, we have already said it should be around Rs.70 Crores, phase I and phase II should be around Rs.125 Crores odd. Along with sulphuric acid it will be roughly Rs.135 Crores.

Pritesh Chheda: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Thank you again. Sir we keep hearing about new product launches in insoluble sulfur, are our products more incremental in nature or once in a while we can have one revolutionary product, which can have significant efficiency management, or it is mostly incremental?

Akshat Goenka: It is mostly incremental.

Anuj Sharma: Okay, in the matter of three years, what proportion of revenues could come from new product launches?

Akshat Goenka: Eventually the market starts moving towards it, so is very difficult to predict how soon market will move, when it will move, it just happens, it is very difficult to predict like this.

Anuj Sharma: You have done very well with Duncan in terms of its turnaround over a period of time. Do we have any plans to introduce new products or it will remain as steady ship as it is now?

Akshat Goenka: Last few years was in turnaround. Now we have actually beefed up our top management team there and the focus for that company is now going to be growth. That is what we are embarking on now.

Anuj Sharma: Will it be existing presence or some more ideas that you are looking at?

Akshat Goenka: I would say it would be improved versions of existing product as well as complementary products that we do not have in our portfolio that can go to the same set of customers. Products which are competitors are already in, so the missing products in our portfolio are now going to be attempted to be added and that is how the growth is expected to come.

Anuj Sharma: My last question is we had indicated in the past that new capacities will primarily cater to underpenetrated companies and geographies. So in terms of tie-ups if it was existing relationship it would have been easier. But any update on any new customer or geography you have been able to tie-up for this upcoming capacity?

Anurag Jain: We are still in talks since it has not been concluded, it would not be fair for me to say all the details. But we are getting good traction.

Anuj Sharma: All the best. Thank you.

Moderator: Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: Thank you for the opportunity. My first question is are we planning on moving to gas in Mundra, so has that happened?

Anurag Jain: It is going to happen from May.

Samarth Singh: What is the expected savings in that?

Anurag Jain: Expected savings are in the range of Rs.1 Crores to Rs.1.5 Crores.

Samarth Singh: Second question, out of the capex for phase I, how much we spent for that as of December 31, 2020?

Anurag Jain: We have spent around Rs.100 crores.

Samarth Singh: Thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Security Investment. Please go ahead.

Akshat Goenka: I just want to come back to one question, because the earlier participant's question was very relevant because we also had another question earlier that asked for our cash and debt position as of December 31, 2020. So I want to highlight that cash and debt position is after already spending Rs.100 Crores out of Rs.150 Crores. Please go ahead with your question.

Nikhil Upadhyay: Thanks for the opportunity and congrats on good set of numbers. Sir my question is on the overall demand supply economics. If you look at our company like last five or six years our capex expansion has been at a much aggressive pace and parallelly if we look at some of the other companies in the rubber chemical space they have also done the capex and have seen a significant shift from the China Plus One, which has helped them ramp up the capacities quite significantly. Would you say the ramp up of the new capacities, which we are putting could be much faster than what we have seen earlier or are you getting any flow through or benefits of the global thing, which people are talking of, if you can share any thoughts?

Akshat Goenka: I certainly expect the ramp up of this capacity to be quicker than the ramp up of our capacities that have happened in Mundra. With regards to your question on the Chinese angle the Chinese are not really big players in this market globally, so therefore the shift would not impact us because they are not there to be shifted out of.

Nikhil Upadhyay: Secondly Sir if we understand the capex plan like I think you and China Sunshine have plans of any new capex, other than these anyone else is planning to put new capacity?

Akshat Goenka: No.

Nikhil Upadhyay: If that is the case, would you say there is a lot more room for realization to go up if the demand supply is equally balanced?

Anurag Jain: There is lot of excess capacity in the market, so first demand needs to come up a lot.

Nikhil Upadhyay: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from Monarch Networth Capital. Please go ahead.

Anubhav Rawat: In last call we had this discussion on our investment in AIF, just wanted to know what will be the total investments from our side and for how long **will this money be locked in**?

Akshat Goenka: The total investment as on December 31, 2020 that have already been done in these AIFs from average duration of five years would be around Rs.20 Crores. The committed figure would be higher, but as you would know the money is taken in stages.

Anubhav Rawat: Any idea on the total amount, if it would be Rs.50 Crores or Rs.100 Crores?

Akshat Goenka: The committed amount as of today would be around Rs.50 Crores. It will be taken over the next two to three years. But we continue to make commitments as and when good opportunities arise.

Anubhav Rawat: Fair enough Sir. and just one last question. This peak revenue that you said from phase I are roughly around Rs.65 Crores to Rs.70 Crores and you were saying from phase II it will be the double of that, so are we not accounting for the revenue from sulphuric acid pardon me if I am getting the maths wrong?

Anurag Jain: When we are giving this guidance, we have taken into accounting the lower price of sulphuric acid going forward and that is why this difference is coming. But yes, what you are saying is right if the sulphuric acid price remains the same then our guidance would be around Rs.145 Crores.

Anubhav Rawat: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question. What amount has been spent for Phase II?

Akshat Goenka: In this Rs.150 Crores there are lot of common things so that is why if you notice in Rs.215 Crores, Rs.150 Crores is coming in phase I and only Rs.65 Crores is coming in phase II. So all the common activities are part of this Rs.150 Crores. As of now, Rs.100 Crores has been spent out of Rs.150 Crores.

Nitin Gandhi: How much is the debt portion for the capex out of Rs.163 Crores of debt?

Anurag Jain: 2:1, so one third is internal accruals and two-third is debt.

Anurag Jain: On December 31, 2020, for phase I out of that would be around Rs.55 Crores because we have picked up some of that loan in January. So as of December 31,2020, only around Rs.55 Crores would be for phase I.

Nitin Gandhi: Which would peak out to somewhere around Rs.100 Crores?

Anurag Jain: Yes.

Nitin Gandhi: Second question is when you said the global demand supply mismatch there and demand needs to go up to meet the excess supply. So what is that difference at this point in time?

Akshat Goenka: I do not have the exact figures as of now.

Nitin Gandhi: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain: Congratulations for the good set of numbers. Sir just wanted to get a sense from you on the capital allocation going forward considering now for the next two years the capex plan is limited to whatever announced and we expected to have a strong cash flow and we are almost net cash positive now. So can we expect higher return of capital in the form of dividends or buyback? Would that be the way or you have some other plans for capital allocation going forward?

Akshat Goenka: We have no other plans for capital allocation going forward. There is nothing else that we are looking at spending money on. So yes what you are saying could be a logical next step which we would do at the appropriate time. We will go to rewarding our shareholders in some way or the other.

Abhisar Jain: Okay Sir, understood. that's it from my side. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital Advisors. Please go ahead.

Kunal Mehta: Thank you very much for the followup. Just wanted to confirm the that. Actually, Rs.215 Crores investment is for the entire 11,000 tonnes capacity and 42,000 tonnes of sulphuric acid plant, out of the Rs.150 Crores is for the phase I and the rest of the Rs.65 crores would be for the phase II. Would that be a right way to look at it?

Anurag Jain: That is correct way to look at it.

Kunal Mehta: Out of this Rs.150 Crores for phase I, we have spent Rs.100 Crores?

Akshat Goenka: Correct.

Kunal Mehta: Second thing I wanted to understand is that based on the current price we have, we are guiding for combined revenue from this whole investment of Rs.215 Crores with the revenue to be around Rs.135 Crores to Rs.140 Crores. Just wanted to understand from the business case perspective will this makes sense for us because as you mentioned that this new capacity will not implement any overhead cost right, not the whole of the gross margin, but a significant portion of the gross margin will come down as an EBITDA margin for this project and that is the way to look at it? Otherwise the asset turn on this would be low given Rs.215 Crores of investment, if Rs.140 Crores is revenue, so the way to look at it is from a return on capital perspective?

Akshat Goenka: Yes that would be the way to look at it. You are absolutely right. That is how the return on capital would be calculated in this. So to put it very bluntly any Greenfield expansion makes no sense with the current industry structure globally nobody can expand Greenfield because it makes no financial sense.

Kunal Mehta: Practically the industry capacity in such a level that the demand has to come up a lot for the capacity to actually improve and make new sense?

Akshat Goenka: That is why I have confidence that no further capacity expansion is going to happen in insoluble sulphur because Greenfield capacity expansion makes absolutely zero sense by anybody whether it is Sunshine or X or Y or anybody. Nobody is going to do a standalone Greenfield expansion of insoluble sulphur.

Kunal Mehta: Thank you very much.

Moderator: Thank you. The next question is from the line of Dhruvam from HDFC Fund. Please go ahead.

Dhruvam: Just one clarification, this Rs.140 Crores revenue is on the incremental 11,000 tonnes, but would it be fair to say the existing capacity is also a bit underutilized not the Q3 number, but if we probably say working for the full year number or FY2020 base?

Anurag Jain: Full year number yes, capacity would be severely underutilized.

Dhruvam: Even FY2020 if I see the revenues were down so that would indicate there was some volume pressure?

Akshat Goenka: FY2020 also was severe underutilization of the capacity.

Dhruvam: That would not be the right case. So this Rs.140 Crores plus some additional from the utilization of existing capacities, would be the right way to look at?

Akshat Goenka: The only reason we got into this Rs.140 Crores is because these are the questions that we got but that is not the right way to look at it.

Dhruvam: Thank you so much.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from Monarch Networth Capital. Please go ahead.

Anubhav Rawat: Just final question from my side, what would be your cost of debt for this new inventory that we are taking?

Anurag Jain: It should be between ~ 7% to ~7.5%.

Anubhav Rawat: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: I had the same question Anubhav asked it. But is there any repricing which you are looking for with your rating or anything which you have and this is for the project right?

Anurag Jain: This is for the new project and it takes into consideration our ratings. In current scenario we are not looking for any pricing in the short term. Let us see how the scenario pans out.

Nitin Gandhi: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Sunny Ahuja an Individual Investor. Please go ahead.

Sunny Ahuja: From a shareholders' point of view, in order to improve the institutional participation are we looking at any steps since our equity and free float is pretty small at the moment. So are we looking in that direction at any steps so that you know may be larger FIIs and institutions would be able to participate in the better way?

Akshat Goenka: We keep thinking about what the different options are and evaluating them. If you ask me if something imminent there, then the answer is no. But we constantly keep looking at what are the different ways and best things to do.

Moderator: Thank you. Due to time constraint that was the last question. I would now like to hand the conference over 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 further information, kindly reach out to us or Strategic Growth Advisors, our investor relation advisors. Thank you once again.

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