CENTURY ENKA LIMITED

(Factory : Bhosari, Pune 411 026)

Phone : +91-20-66127300
Telefax : +91-20-27120113
Email : celpune.reception@birlacentury.com
Company CIN : L24304PN1965PLC139075

Communicate at
Post Box No. 17,
Plot No. 72 & 72 - A, MIDC,
Bhosari, Pune - 411 026.

Date: 16th August 2022

Listing Department **BSE Limited** Phiroze Jeejeebhoy Towers Dalal Street, Mumbai-400001	Listing Department **National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G Block Bandra-Kurla Complex Bandra (E), Mumbai 400051
Scrip Code: 500280	**Symbol: CENTENKA**

Sub: Transcript of Q1-FY23 Earnings Conference Call of Century Enka Limited ('the Company')

Ref: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Pursuant to Regulation 30 of the Listing Regulations, please find attached transcript of the Q1-FY23 Earnings Conference Call conducted on Thursday, 11th August 2022. The same is also available on the website of the Company i.e., www.centuryenka.com

This is for information and records.

Thanking You,

Yours faithfully
For **Century Enka Limited**

CENTURY ENKA LTD. PUNE

(Rahul Dubey)
Company Secretary
Membership No: FCS 8145

Century Enka Limited
Earnings Conference Call
August 12, 2022

Moderator: Ladies and gentlemen, Good day and welcome to the Q1 FY23 Conference Call of Century Enka Limited. 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 telephone. I now hand the conference over to Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Good afternoon everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Century Enka Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the first quarter of financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's concall maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today's earnings call and I hand it over to them for opening remarks. We first we have with us Mr. Suresh Sodani – Managing Director and Mr. Krishnagopal Ladsaria – Chief Financial Officer. Without any further delay I request Mr. Sodani to start with his opening remarks. Thank you and over to you, Sir.

Suresh Sodani: Thank you and Good afternoon everyone. I would like to welcome you all to our Q1 FY23 earnings conference call. I hope you and your loved ones are all keeping safe. Let me brief you on the operational highlights for the first quarter of financial year 2023. We had a healthy growth in revenues and volumes in Q1 FY23 compared to the same period in previous year which was obviously impacted by second wave of COVID. Our overall sales volume of Q1 FY23 increased by around 18% year-on-year to 17,598 metric tons.

In case of Nylon tyre cord fabrics overall demand has moderated slightly as tyre companies are yet to achieve optimal capacity utilization. There was a steep correction in Chinese NTCF prices however imports were muted. Medium to long term prospects remain positive supported by robust exports pick up in OEM demand for tyres, restriction on tyre imports and anti-dumping duty on Chinese radial tyre imports as well as pickup in overall economic activity.

In case of Nylon filament yarn we witnessed better volume in our traditionally weak quarter although the pass through of cost increases is becoming difficult incrementally due to high absolute prices of yarn and slowdown in China leading to dumping of cheaper NFI domestic prices. Caprolactam prices remained elevated during the quarter although prices in China have corrected significantly in Q2 FY23 and is having an impact on NFI prices.

On capex front as you are aware the company has undertaken capital expenditure plan of over 300 crores to strengthen its competitive position in tyre reinforcement markets through modernization of plants, augmenting capacity and also increasing capacity of Draw Texturized Yarn and mother yarn. All capex sanctioned by the board are running as per schedule. The orders were all long delivery items being place on reputed equipment manufacture.

The cash outflow for capex in Q1 FY23 was around Rs. 72 crores and the projected cash outflow in FY23 is expected to be about 200 crores on the ongoing capex plan. The target commissioning of NTCF projects in Q4 FY23 while target commissioning of full capacity of polyester tyre cord fabric is expected by Q4 FY24. Value addition and expansion in NFI capacity is expected to be completed by Q4 FY23 and Q4 FY24 respectively. Now I request our CFO to brief you on financial performance.

Krishnagopal Ladsaria: Thank you sir. Good afternoon everyone. The operating revenue for Q1 FY23 stood at 568 crores which represent an increase of 34% year-on-year. EBITDA for the quarter stood at 61 crores which was a decline of 0.5% year-on-year and this represented an EBITDA margin of 10.76%. Profit after tax we reported at 40 crores which was a decline of 5.2% year-on-year and PAT margin was at 7.1%. The product wise number the product wise sales increased for NTCF by 15% year-on-year at 285 crores while for NFI increase was 60% as mentioned by [Inaudible 05:18] last year it was impacted by COVID second wave. So sales stood for NFI at 245 crores. Now we open the floor for question and answer.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of AM Lodha from Sanmati Consultants. Please go ahead.

AM Lodha: Sir, I have got two questions I required clarification regarded power and fuel cost in the quarter has gone up considerably, we have the power plant to the call-based power plant?

Krishnagopal Ladsaria: We do not have any captive power plants. We are connected to grid power in Pune as well as Bharuch plant. We do utilize the open access to drop at cheaper rate, but we do not have any captive power plant.

AM Lodha: Sir, what is the average cost of the power used by the company during the quarter?

Krishnagopal Ladsaria: For our Bharuch plant it was somewhere around Rs. 8.40 paisa for Pune plant it was around Rs. 5.30 paisa.

AM Lodha: Why not the company is considering [Inaudible 07:12] surplus and even in Godavari steel plants are putting up solar power plant why do not the company consider to put up the green power that is the solar power plant to contain the cost of the power in the future year?

Krishnagopal Ladsaria: We are doing it for our Bharuch plant. We have gone into group captive which is a hybrid of solar and wind and this will be commissioned somewhere in the month of March. So, with that commissioning nearly 30% of our Bharuch requirement will be met from this group captive source which will be cheaper compared to the normal.

AM Lodha: Still Rs. 8.40 paisa is too high compared to the cost of the solar power generation including interest on the investment which we consider. So, you should plan the bigger power plant in the Bharuch because Rs. 8.40 paisa will become Rs. 10 in coming two years' time?

Krishnagopal Ladsaria: We have taken the maximum available capacity as per the group captive scheme. There are transcriptions on which we can do and this is the maximum capacity has been taken which will meet 30% of the requirement at Bharuch.

AM Lodha: My second question is relative to DMart status of the 229.27 crores in the **(Inaudible) 8:41**. One thing is pending of tribunal appeal and another matter is pending at supreme court, can you put some light on this either any retained development or what is the status of the above thing?

Krishnagopal Ladsaria: So, the demand which was at around 230 crores has been reduced to 7.3 crores now and the company is in appeal to supreme court and as per the legal advise which company has received even that 1.3 crores there is a good chance that demand may not materialize. Our appeal is there in supreme court and we are pursuing it, but there is no development in last 3 months in this regard.

AM Lodha: But what is the matter pending with appellate tribunal, has there department has filed a appeal with the tribunal against the order of the commissioner?

Krishnagopal Ladsaria: So, the reduction which the commissioner appeal has done from 230 crores to 7.3 crores department is in appeal, but it is more of an administrative appeal which they have done because in our view whatever correction has been done in demand has been as per the earlier order of CSAT. So, it is in line with that order only. So, as and when matter will come up for hearing we will know more on the matter.

Moderator: Thank you. The next question is from the line of Shubham Agarwal from Aequitas Investments. Please go ahead.

Shubham Agarwal: Sir my first question is likely near term so YoY we have seen both revenue and volume growth obviously on a low base, but it seems like Q1 margins are on a declining trends, so firstly I wanted to know how **grave** is the China situation because they would be competitive in terms of raw material pricing and how do you guide the margin going forward?

Krishnagopal Ladsaria: First of all I think rightly said that comparison is more with the last year Quarter 1 because we are seasonality particularly on the NFI side and even in that scenario traditionally weak Q1 we have good numbers both in volume as well as in turnover. China has been unstable mainly because of the lockdown that have happened in various cities and areas which has impacted their value chains and supply chain. So, certain products right from lactam to even the fabrics having either being higher or lower and which has led to demand imbalance and surplus stocks availability in various parts of the value chain and that has what has disturbed the market even in India and which we are seeing it also in some of the products. We expect that now since China has opened up even with some restrictions that in Q2 and most likely in Q3 things would stabilize and that would reflect revert back to normal practices that are there in China. I mean we have been operating in the same environment of China competition in past as well. So, we expect that Q3 onwards should become a more normalize unless COVID situation again becomes critical and China takes a very hard view on lockdowns and other aggressive markets.

Shubham Agarwal: But if I compare the realization of what Chinese are dumping at what price in India compared to our ask what is the difference currently?

Krishnagopal Ladsaria: See we cannot give a generic answer because China sense material from lactam just to yarn to even fabrics. So, it is varying from product-to-product and then there are multiple yarns, but as I said it becomes a challenge with the holder of the stock to sell rather than hold our price in China and that is what we have seen particularly in later half of Quarter 1 and in Quarter 2. However, the volumes have not significantly higher they are higher, but it is not a case of gigantic increase in import term. Yes the pricings have been as I said this happens when the value chain is disturbed and some players want to reduce their stock level they would select any price. So, this would not reflect normal pricing level with respect to the industries.

Shubham Agarwal: Sir secondly my question was with regards to the land so you in the last quarter mentioned that if there is any update would you like to share with regards to usage of the land?

Krishnagopal Ladsaria: There has been no update as I said these are not short-term things which can happen I mean as and when it happens definitely we announce as part of our presentation, but there are no updates. We keep looking for opportunities and as and when something materializes we will inform.

Shubham Agarwal: And lastly sir what would be our Caprolactam current buying price?

Krishnagopal Ladsaria: Caprolactam is currently trading at around $2,000 per metric tons.

Shubham Agarwal: So almost $300 correction in last few months?

Krishnagopal Ladsaria: On an average last quarter was at around $2,200 so from 2,200 it is now at around $2,000.

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

Pranav Jain: So sir we have made an investment of around 26% in Abrel Century Energy Limited, so what is the rationale behind it and the amount invested and what is the return we expect from the same?

Krishnagopal Ladsaria: This investment is for group captive which we are doing for our Bharuch plant. So, at Bharuch we are putting up 10.5 megawatt group captive project which is solar plus wind and for that project there is a requirement that we invest 26% in the SPV which has been formed for this purpose and total investment expected in the SPV will be around 8.8 crores and this is not for the return on investment it is on saving power. So, power cost saving will be there over the period and it is quite attractive.

Pranav Jain: So sir how much savings we expect from this investment?

Krishnagopal Ladsaria: So, our expectation is that if the power supply is as per the expectation it will be around 15 crore saving per annum.

Pranav Jain: And sir second question regarding the realization per ton trend, so our realization per ton is increasing on QoQ basis, so is it due to increase in the NSTAR NTCF volumes or it is mainly because of the prices or it is mainly because of the volume mix?

Krishnagopal Ladsaria: So, it is mainly reflection of the price increases that were there compared to Q4 in the underlying raw material. Some exchanges do happen between the products, but prime reason is increase in the raw material pricing.

Pranav Jain: Sir, lastly our operating margins are at the lower end if you see in this quarter it is somewhere around 10.5%, so when will we expect this to rise like, what is your guidance regarding this?

Krishnagopal Ladsaria: I think our normal expectation of margins is in the range of 10% to 13% and it will keep varying based on the raw material pricing because that impacts the margin calculation as well. So, as I said Q1 pricing of raw materials were higher, it also had an impact on the margin percentage.

Pranav Jain: Sir you said that the Caprolactam prices have corrected like around $200 per tons apart from this, so the major was the power and fuel cost, major contributing factor was power and fuel cost?

Krishnagopal Ladsaria: Yes in the EBITDA margins yes one of them is also power and fuel which have increased significantly compared to Q1 last year and some improvement increase even compared to Q4 that definitely and that is a industry wise, economy wise phenomena because of the underlying pricing of coal and other fuel cost.

Moderator: Thank you. The next question is from the line of Vikas Gupta from AV Fincorp. Please go ahead.

Vikas Gupta: So, we are planning for a capex of around 300 crore, is it right?

Krishnagopal Ladsaria: Yes.

Vikas Gupta: So, how much might be the cash left after doing this capex?

Krishnagopal Ladsaria: How much would be sorry?

Vikas Gupta: How much will be the capital or cash that will left over after completing this capex?

Krishnagopal Ladsaria: We will be sufficiently funded on liquidity even after spending 300 crores based on the current quarter and the likelihood of similar performance in future quarters. So, we expect that the entire spending that we are doing in the current financial year would be out of the generations between the current. So, we can expect similar levels of cash flow at the end of the financial year.

Vikas Gupta: So, what might be the idea to utilize the cash after this cycle get spend?

Krishnagopal Ladsaria: No, we keep evaluating opportunities for further growth and these are tested and both of process of rigorous proper strategy part of it and also it is to be presented before the board, so during the year we come up with some interesting and looks good long term back to on our keeping our strategic fit we will utilize this surplus fund, idea is not to keep this fund idle, but utilize it for more productive use.

Vikas Gupta: My second question is related to the receivable so is there any receivable from Birla Tyres Limited?

Krishnagopal Ladsaria: Yes there was receivable of around 7 crores from Birla tyres which were fully provided a year back and so there no exposure to Birla tyre which is un-provided or which is open for us.

Vikas Gupta: Do we expect this to get back to us any update on this?

Krishnagopal Ladsaria: So this Birla tyre is in NCLT receiver has been appointed for Birla tyre and it will all depend on what is the realisability of their assets. So, we are hoping that some part will be recovered of this, but as of now company has fully provided for those receivable.

Moderator: Thank you. The next question is from the line of Anant Mundra from Mytemple capital advisors. Please go ahead.

Anant Mundra: Sir I wanted to understand that after the capital expansion that we are planning that you said, so will our margin profile change currently you mentioned it is around 10% to 13%, so do we expect that to change after the capex is gone?

Krishnagopal Ladsaria: Difficult to comment because once these are markets which are volatile, but we expect our internal estimate is that it should remain in that range on a higher base, higher turnover because margins are also determined by how our end user segment what tyre and textile are doing and there help will also determine the margins that we are on in the company. So, we expect that this should remain in this range, but there could be upside and some volatility depending on how other factors play out.

Anant Mundra: But in some NFI we are going into some more value added products am I correct I mean after the capex I mean we can expect some kind of at least margin increase in the NFI segment, is that understanding correct?

Krishnagopal Ladsaria: Obviously the purpose of doing value addition to certain product is to improve margins, but these are not significant in terms of the overall capacity. It is more of portfolio adjustments and making products which are better margins and which are more acceptable to the markets. As we mentioned in the last call we expect that by FY25 the top line should grow by 20% to 25% and the margins in that range should remain 10% to 13%.

Anant Mundra: So, my next question sir so we are getting into polyester as well now we plan to get into polyester so what would be the raw material for PPCL?

Krishnagopal Ladsaria: These are polyester chips which are available both domestically and internationally and thereafter go through a process and finally make to a polyester tyre cord fabric.

Anant Mundra: So, is there adequate domestic availability for polyester chips or again like or again like Caprolactam we will have to be dependent on imports?

Krishnagopal Ladsaria: The polyester domestic availability is better than nylon Caprolactam or nylon chips. So, polyester there are two domestic producer as well as more international producer even outside China.

Anant Mundra: And in this also will we have the capacity to make chips ourselves in polyester like how we have in nylon?

Krishnagopal Ladsaria: We will be starting with purchase of chips because that is a large volume business and we do not intend to get into chips polyester chips manufacturing.

Anant Mundra: And sir one more question I read in the annual report that we are exporting some green polymer chips currently, so is that the only export that we are doing or are there other products also that we are exporting?

Krishnagopal Ladsaria: We do export some quantities of yarn and that is more to develop certain markets and these are normally from specialized yarns, some special required by the customer, but that volume is small the larger volume of exports is green polymer chips.

Anant Mundra: Is this scalable or the green polymer chip opportunity is exports is this scalable or this is where it will plateau or what is the plan here?

Krishnagopal Ladsaria: So, currently we use our own internal waste and converted into back to polymers and can convert to chips, scalability will come if we have to buy this waste from outside and which is a very difficult thing because waste come in all kind of mixes whereas we are using our own waste we assure of the quality and what is going into that and this is subject to certain international certifications. So, we have to be very sure of the quality of products that we are exporting. So, in the interim we do not have new plans to expand this capacity, but if opportunity arises and there are possibility of getting assured raw materials in terms of quality we could look at this possibility as well.

Anant Mundra: What is the opportunity that we have in terms of exports to develop the export market because our export front is so limited, is that the focus or we are currently only focusing on expanding domestically more?

Krishnagopal Ladsaria: The focus currently is on domestic markets which is growing and obviously the realizations are also better compared to export markets, export would be mainly niche products where we get better realizations compared to domestic markets or there is a demand for certain products which domestic markets still not developed for.

Moderator: Thank you. The next question is from the line of AM Lodha from Sammati Consultants. Please go ahead.

AM Lodha: There are two follow up questions there is total expansion of 300 crore can you give split of NTCF and the polyester?

Krishnagopal Ladsaria: As mentioned we are in single segments so both on turnover, on volumes everything is on similar basis, but majority portion of this expansion is on the reinforcement business.

AM Lodha: Sorry sir can you repeat it?

Krishnagopal Ladsaria: The reinforcement business this is the tyre cord segments, majority of that is on tyre cord segments.

AM Lodha: It has been mentioned in the presentation NTFC Quarter 4 FY23 and polyester tyre cord FY24?

Krishnagopal Ladsaria: Yes.

AM Lodha: So, just I wanted the breakup of the investment in total breakup of the two lines nylon tyre cord and polyester tyre cord?

Krishnagopal Ladsaria: As mentioned these are products that are mainly we are into synthetic yarns business and then manufacturing products out of that. So, we are giving only the sales breakup and for competitive reasons mentioned earlier also.

AM Lodha: Can you just tell us in this how much turnover we can expect on full capacity utilization of all your debottlenecking and on the fresh capex?

Krishnagopal Ladsaria: Yeah once these are commissioned in FY25 we expect a top line growth of 20% to 22% on the baseline price of 2022 FY22 which will keep varying if prices go up and down the numbers could change and it is underlying raw material change. So, we expect about 20% to 25% top line growth.

AM Lodha: My second question is how much cash and cash equivalent we have as on 30th June 22 please?

Krishnagopal Ladsaria: If we had to mentioned that we would have given that therefore we have given along with the balance sheet in the September, but as I mentioned in an earlier question we are sufficient liquidity and by the year end we expect that the current capex spent would be done out of the operating profits of the current year.

AM Lodha: Why am I asking, I am asking from the point of view that because I have observed that the management holding is very low in this Century Enka when you have the surplus cash why do not the management consider the buyback of its shares which will not only increase the holding of the management, if management does not participate and this will be beneficial to all our minority shareholder. So, this is purely a suggestion sir the company can do the buyback of shares and to increase the holding because the low holding always in our investors mind a very low holding of 27%, 28%, 30% is not good for any management.

Management: We convey your suggestion to the board that is something that only the board and promoters can decide we will convey your suggestion.

Moderator: Thank you. The next question is from the line of Anant Mundra from Mytemple Capital Advisors. Please go ahead.

Anant Mundra: I wanted to understand what are the different products that we manufacture at Pune and Bharuch, how are they different or they are the same products?

Krishnagopal Ladsaria: Both the plants manufacture both nylon tyre cord fabric as well as nylon filament yarn. Only difference is nylon filament yarn has multiple products and large number of SKUs so which are divided between both the plants depending on past and equipments that are there. In case of NTCF both plants have the facility. We are now putting up a dipping facility at Pune which was not there and that will also get commissioned in Q4 of this financial year. So, NTCF which is very similar at both the plants.

Anant Mundra: And sir what is the current value of the Mahad land that you are planning to sell on our books?

Krishnagopal Ladsaria: We are not trying to sell that land as we have mentioned earlier. We are looking at opportunities either to utilize it gainfully for some of our products or different expansions and as and when we have not got anything any valuation done since we are not actively using looking to sell that land. So as and when any transaction is anything is due for announcement we will do as a part of our earnings presentation.

Anant Mundra: Sir just one clarification to one of the questions that the earlier participant had asked so we are planning to invest around 8.8 crores in the solar and wind captive group captive schemes and the savings that we expect out of that is 15 crores annually, is that figure correct?

Krishnagopal Ladsaria: Yes.

Anant Mundra: So, on an 8.8 crore investments we are envisaging savings of approximately 15 crores?

Krishnagopal Ladsaria: Yes because this pricing of power is a fixed pricing and cheaper to the grid pricing. So, when we enter into agreement the pricing is fixed and that gives us the confidence and this is saving is based on the differential between with a current grid rates where we are drawing the power from.

Anant Mundra: And sir my final question so just wanted to understand how big is the unorganized segment in the NFI segment and how big are the second or third competitors in this industry we are the biggest, how big is the second and third largest competitor that we have and how large is the unorganized sector in this?

Krishnagopal Ladsaria: Actually unorganized segment is the largest on a combined basis because this is a very modular business at low investment many people get into small capacities. The next competitors are in the range of 10% to 15% and lower next two and three, but the majority on a combined basis are unorganized basis.

Anant Mundra: Has there been a decline of the presence on unorganized sector in this segment or they are maintaining that market share?

Krishnagopal Ladsaria: There is some decline especially after the COVID many small scale, but there are also new entrants. So, I mean it is difficult to keep a track on who is entering and who is leaving to a large extent, but based on the market information on not a very confirm basis these entries and exit keeps happening.

Anant Mundra: I am assuming NTCF the unorganized sector presence would be far lower than the NFI segment?

Krishnagopal Ladsaria: There is no in fact nobody in the unorganized sector in the NTCF because that is the very technical product and to work through a rigorous approval process with the tyre company and obviously also the investments are large. So, there is no unorganized player in the NTCF market.

Moderator: Thank you. Ladies and gentlemen this was the last question for today I now hand the conference over to the management for their closing comments. Over to you, sir.

Krishnagopal Ladsaria: Just to your clarification in one of the question I mentioned power cost for Pune at Rs. 5.3 in fact it is Rs. 6.6 per unit because earlier it was there that there is an increase in charges. So, that is one clarification and we want to thank all the participants for their active participation and if there are any follow up question you can always reach us. There is a investor relation link on our website. So, your question can be put up there.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Century Enka Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.