ADITYA BIRLA
CENTURY ENKA

27th January 2024

Listing Department	Listing Department
National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G-Block Bandra Kurla Complex, Bandra (East), Mumbai - 400051 Symbol: CENTENKA	**BSE Limited** 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400001 Scrip Code: 500280

Sub: Transcript of Q3/9 Months-FY24 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 herewith transcript of Q3/9 Months-FY24 Earnings Conference Call conducted on Wednesday, 24th January 2024. The same is also available on the website of the Company i.e., www.centuryenka.com.

This is for your kind information and records.

Thanking You,

For **Century Enka Limited**

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Century Enka Limited
Q3 & 9 Months FY24 Conference Call
January 24, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9 months FY24 conference call of Century Enka Limited. 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 the operator by pressing "*" and then "0" on your touch-tone phone.

I now hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Over to you, ma'am.

Purvangi Jain: Good afternoon everyone and a warm welcome to you all. My name is Purvangi Jain 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 Q3 FY24 earnings conference call.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's con-call may be 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 beliefs as well as assumptions made by and information currently available to the 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 conference 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 in today's earnings call and hand it over to them for their opening remarks. We have with us, Mr. Suresh Sodani – Managing Director and Mr. Krishna Ladsaria – Chief Financial Officer. Without any delay, I request Mr. Sodani to start with his opening remarks. Over to you, sir.

Suresh Sodani: Good afternoon everyone. I would like to welcome you all to our Q3 FY24 earnings conference call. Let me first brief you on the operational highlights for the third quarter of FY24, after which our CFO, Mr. Ladsaria, will brief you on the financials. We saw an improvement in the NTCF demand on a quarter-on-quarter basis. And although there is an improvement in two-wheeler sales which is encouraging, it still trails pre-COVID levels. The NTCF demand continues to be subdued in India due to lower export of tyres, especially to Europe; increasing trends of regionalization in commercial vehicles; and increase in cheap imports from China against advance licenses. This is also affecting our conversion margins. In the nylon filament segment, we saw recovery in demand post Diwali. While green shoots are visible, worries persist on account of overall lower demand for textiles, particularly in rural areas along with China, with the consequent dumping into India, which is impacting margins. Our focus continues to be on increasing the share of value-added products in our portfolio and cost optimization. On the raw material front, caprolactam prices hovered consistently between $1628 to $1663 per metric ton. Electricity rate remained at elevated levels, with some moderation in chemicals, packaging materials, and fuel costs.

Now, to update you on our CAPEX project, on a year-to-date basis in the current financial year, there was a total cash outflow of Rs. 1,025 million towards the ongoing CAPEX programs. PTCF capacities are expected to be commissioned in Q4 FY24, while expansion in NFY capacity has been commissioned ahead of schedule in Q3 FY24.

Now, I request Mr. Ladsaria to brief you on financial performance.

Krishna Ladsaria: Good afternoon everyone. Let me start with the financial results for the third quarter of this financial year 2024. The operating revenue stood at Rs. 451 crores, representing a decrease of 3.8% year-on-year basis. EBITDA for the quarter stood at Rs. 18 crores, which declined by 11% year on year. EBITDA margin was at 4.08%. Profit after tax was around Rs. 5 crores, representing a decline of 53% year on year. PAT margin stood at 1.04% for the quarter. It is important to note that net profit is reported after provision for our share in loss of associate, which was an SPV created for our Bharuch unit, which included an impairment provision made by associate amounting to Rs. 9.8 crores, with our share amounting to Rs. 2.5 crores for the relocation of the plant pursuant to a notice received from the Ministry of Defense.

NTCF sales for Q3 FY24 decreased by around 11% year on year to Rs. 225 crores, while NFY sales for the same period declined by 10% year on year to Rs. 208 crores.

Now, coming to year-to-date results for the financial year 2024, the operating revenue stood at Rs. 1,276 crores, which decreased by 20% year on year. EBITDA stood at Rs. 49 crores, which is a decline of 59% year on year. EBITDA margin for the same period was 3.85%. Profit after tax was around Rs. 23 crores, which declined by 70% year on year, and PAT margin stood at 1.76%. The NTCF sales for the period decreased by around 25% to Rs. 610 crores, while NFY sales decreased by 12% to Rs. 612 crores.

With this, we can open the floor for questions and answers.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Anik Mitra from Finnomics Solution Private Limited. Please go ahead.

Anik Mitra: Sir, radialization of tyre has been impacting NTCF volume for a few quarters and my understanding is that radialization will even increase going forward. In this backdrop, what is the future of the NTCF industry and what is your strategy to compensate for decreasing volume?

Suresh Sodani: The radialization impacts the medium and heavy vehicle segment only because NTCF is used also in the two-wheeler and three-wheeler segment, the farm segment, and the OTR segment. We have anticipated and we have prepared our action plan based on increased radialization in the MHCV segment, which is expected to mirror the world's or at least Chinese radialization percentage in the next few years when it is going towards that trend. We expect that there will be some loss which could be uneven over quarters, but on a long-term basis, the loss on radialization to a large extent or maybe equal extent be compensated by increase in demand from two- and three-wheeler segment tyres, the farm tyres, and the OTR segment. And the reason to have that viewpoint is that our penetration ratio with the size of population, with the growth of GDP as well as growth of middle class and improvement in farming techniques, is still very low compared to a developing or a slightly developed or comparable economies at the current stage at which India is. We expect that while there could be dips in a few quarters, it should either stabilize or maybe a very small growth in NTCF should sustain in the next few years. Our plan to counter that with our foray into PTCF. First, we have initiated with a small capacity. But going forward, as we had explained in some of the earlier calls that the downstream equipments are fungible between NTCF and PTCF. So, we can repurpose a lot of equipments which are currently used for NTCF for our PTCF expansion in future. That way, we need to spend our CAPEX only in the spinning capacity of PTCF. And we would be able to repurpose a lot of our current fixed assets for PTCF production, which is used in the passenger cars and which is expected to grow at a much healthier pace and faster pace, given the, again, same dynamics of Indian population.

Anik Mitra: Sir, in your presentation, you have mentioned that your commissioning of PTCF capacity is going to be by Q4 FY24.

Suresh Sodani: Yes.

Anik Mitra: What is the capacity you are commissioning for PTCF? You mentioned small capacity, if you can quantify that number.

Suresh Sodani: It will be close to 10% of the current demand in India. And almost the current demand of India is met by 80% to 85% through imports. So, we will be catering to just about 10% at the current demand. And as I said, with the growth in passenger vehicles as well as more penetration and more usage of four-wheelers, we expect that there should be a good compounded growth for the passenger car tyres and even the tyre companies' investments are directed towards making more investment in passenger car tyres.

Anik Mitra: Sir, as you mentioned, 10% of the current demand. With optimum capacity utilization, what kind of revenue addition can we anticipate?

Krishna Ladsaria: Revenue addition for PTCF initially will be somewhere around Rs. 100 crores.

Anik Mitra: Is it possible in FY25 full year?

Krishna Ladsaria: FY25 we expect that we will be going through the process of approval by tyre companies. So, it is still uncertain how much revenue would be realized in FY25.

Suresh Sodani: This is a new product for Century Enka. The tyre companies have a very rigorous approval process. And second, the reinforcement is going into passenger car tyres where it is more stringent compared to other tyre categories. As of now, while we are confident that our product will get approved, we are not able to give a timeline on when actually the commercial sales will start. But we are hopeful that in the second half we should be able to give more precise answer to this question.

Anik Mitra: Sir, the government announced a policy on BIS certification for polyester yarns. Do you find any benefit in our NTCF industry due to this?

Suresh Sodani: We are also initiating that process through the association that there should be a QCO for all our products. The purpose is that sometimes non-standard products can come in. As far as NTCF is concerned, since the tyre companies are importing, they anyway follow a very stringent process of approval. So, it may not have any impact in terms of imports or reduction in volumes. The main impact can come on the nylon filament side because the importers are less organized and have less quality driven approval process. And like it has happened in polyester yarn, we expect that there could be some impact for a few quarters or maybe 2 quarters depending on when we get this approval because that's also quite a long process and then to get it implemented is another process because of counter pressures from users as well on the various ministries. But we have initiated the process to get all the products that are manufactured to be having BIS certification.

Anik Mitra: Sir, whatever the NTCF is dumped by China in India, does it maintain the BIS standard?

Suresh Sodani: As I said, the tyre companies are themselves very stringent in buying NTCF because they have a very huge public liability in case any accident or any failure is attributed to their tyres. That is the reason that they follow a very stringent process of approval which will to a large extent be similar to BIS. Only difference is that in case of a BIS approval, the supplier in the foreign country has to get an approval of BIS through a process, which can sometimes take time. But in terms of quality, they are good quality material which is getting imported and used by the tyre companies.

Anik Mitra: Sir, what is your growth outlook?

Suresh Sodani: We are cautiously optimistic. The reason to say that is a lot of it depends on what happens in the Chinese domestic market. One of the reasons for squeeze in both volumes and margins is that the domestic demand in China for all our products are not at the optimum level or not robust enough, and a lot of material which is available in surplus in China and which is happening in a lot of textile and other commodities as well, is getting dumped to India. With the current levels of duty protection, they are able to sell a lot of volumes to India. Even if the volumes are not significant, they will impact the margins that the domestic producers can charge because of the low-priced products that come into India. That part is something which remains uncertain how the Chinese economy in terms of their own consumption will pan out, but we are hopeful on good GDP growth and good demand to sustain or to improve in both the segments, which is a positive to partly counter the higher volumes and low-priced material coming from China. That is why there is a balance. We are cautiously optimistic on the prospects, but there are a lot of geopolitical things which have an impact. One of the things which is mentioned also in the opening comment as well as in our presentation is the export of tyres. If Europe picks up again the way it had picked up in FY22 particularly, that could be another positive for the entire value chain linked with the tyres.

Anik Mitra: Sir, finally, if you can give the breakup of NTCF and NFY volumes?

Suresh Sodani: We have mentioned multiple times we report everything on a single segment basis. We give as an additional information only the turnover values; and for competitive reasons, we continue to hold the same view.

Moderator: The next question is from the line of Vipulkumar Shah from Sumangal Investments. Please go ahead.

Vipulkumar Shah: When we expand the capacities of PTCF and NYF will be available, capacity will be expanded by how much tonnes?

Suresh Sodani: Our NFY just commissioned in December, which adds about 3,000 tonnes on an annualized basis and the balance of about 4,000 to 5,000, between that range depending on the denier combination is what I would say. The right denier would be about 4,000, could be added through the balance expansions that will be commissioned by Q4.

Vipulkumar Shah: That will be NFY, right? Or both?

Suresh Sodani: That will be both NFY and PTCF. All the expansions that we had announced will get completed in Q4. Everything will get completed in Q4 FY24.

Vipulkumar Shah: Including the nylon tyre cord?

Suresh Sodani: Nylon tyre cord we had already informed earlier that we have already completed and it is getting used as well because it is more efficient. It is only the balance of NFY and the PTCF.

Vipulkumar Shah: At the current prices, what type of revenue growth we can expect from additional capacities which will be commissioned by Q4?

Krishna Ladsaria: In NFY, we have already commissioned in December. The reinforcement capacity which is mainly in PTCF will be commissioned in Q4. But we expect that our revenues will start only after approval of these products which will be manufactured, which are subject to approval from tyre companies. Once those approvals are in place – it could take a few months for approval, maybe 6 to 9 months or even higher than that. Once those approvals are there, we expect around Rs. 100 crores of additional revenue from PTCF and NFY expansions.

Vipulkumar Shah: So, it's safe to say that in the next financial year, there will not be any substantial contribution from these expanded capacities. Right, sir?

Krishna Ladsaria: For NFY, yes. That has already been started and there is no approval process which is pending where we have got the approvals; but PTCF, yes, it will be towards the end of the next financial year.

Vipulkumar Shah: And lastly, sir, can you explain that exceptional item of Rs. 2.75 crores in the consolidated results?

Krishna Ladsaria: We had implemented a group captive power project for our Bharuch plant. The site which was there initially identified, there was some project from defense. An airstrip was brought in there, and because of that, they did not allow the use of that site for putting up wind turbines. And therefore, the SPV had to shift the site from that location to some other location. So, whatever expenditure was done on that particular site was impaired and moved to a different site. Our share, since we hold 26% in that SPV and we account that SPV as an associate, we have accounted for Rs. 2.5 crores towards this exceptional loss in our profit & loss account.

Moderator: The next question is from the line of Harsheel Mehta from Mehta Vakil & Company. Please go ahead.

Harsheel Mehta: My first question is regarding the EBITDA margin. Sir, in the previous calls, you had highlighted that for this financial year, we will be in the range of 6% to 8%. Given the results this quarter and looking at the dumping going on in India by the Chinese, is this still an aspirational level, the 6% to 8% that we are targeting or do you think that will also be difficult to achieve?

Suresh Sodani: In the short term, there will be challenges, both due to the dumping as we mentioned and the pricing pressure that is coming from the Chinese imports, as also there have been power rate hikes by the Electricity Board, which has also impacted the margins. But in the medium term, possibly from maybe the second half of next financial year or FY26, we do expect to reach back to these operating EBITDA margins. The reason, as I mentioned earlier, is that we expect that the world order should improve. These are obviously a few things which have to get corrected. If the geopolitical situation improves, there is a good chance of the EBITDA margins and world becoming more stable in a lot of things. Unfortunately, if it were to remain similar or get worse, then it is possible that the margins may come under further pressure. But as I said, we still remain cautiously optimistic because in a growing economy like India, the demand side pull can be significant and the middle class growing. So, there could be upsides, and post-election, a lot of things could happen which have a long-term impact on the Indian economy as a whole. And, this being a sector which has a very high linkage with GDP growth, these are a few reasons that we expect that in the second half of FY25 or FY26, the margins should again come back to these levels and the projected levels.

Harsheel Mehta: My second question is regarding the promoter holding. The promoter holding in Century Enka is about 25%. If I compare that to other group companies as well, it is the lowest in Century Enka. Are there any conversations going on about increasing the promoter's stake in the company, given that by all the more conventional metrics, the stock seems to be quite undervalued. Is there any thought process wherein the promoters are looking to increase their stake?

Suresh Sodani: Actually, we can't comment on that. But I can only say that since this point has come up in the past calls as well, we have raised and apprised of the concerns and the suggestions of various members to the board which has promoter representation as well. But there is nothing concrete to say anything about it in this call.

Moderator: The next question is from the line of Keshav Garge from Counter Filter. Please go ahead.

Keshav Garge: Sir, I'm trying to understand what is the net cash that we have as of date post all the CAPEX.

Krishna Ladsaria: it is around Rs. 290 crores which is there presently.

Keshav Garge: And sir, going forward, we don't have any CAPEX?

Krishna Ladsaria: There are no significant CAPEX. As we said, we have completed all our expansion which was there, approved by the board. Going forward, there could be small CAPEX which Sodaniji has talked about on PTCF but nothing firmed up at this point in time.

Suresh Sodani: But I may also add, the reason for not being able to talk about larger CAPEX now is first to look at the markets for the next few quarters. But the company management as well as the board is looking at opportunities to productively utilize the balance sheet strength for opportunities for growth. As and when there is a concrete proposal and approval of the board, it will be announced through appropriate medium.

Keshav Garge: Also, sir, approximately what percentage of the total NTCF demand comes from MHCVs?

Suresh Sodani: Approximately 55% to 60%. MHCV includes the truck, bus, and the LCVs.

Keshav Garge: So, apart from this 55%, what is the contribution of two-wheelers and what is the contribution of tractor tyres and OTR?

Suresh Sodani: You can take it from the ACMA report. That's our own source. But approximately I think 20% to 25% is two- and three-wheelers and balance would be the farm and OTR.

Keshav Garge: What is the international experience in Western markets where radialization has already happened? In those countries, what is the breakup of NTCF demand?

Suresh Sodani: There is a difference in the advanced countries and say, China, because what has happened in advanced countries is they have actually stopped most of the tyre manufacturing which uses NTCF as reinforcement. But there is a very large capacity of NTCF in China, which continues to operate and that is one of the reasons that if their domestic demand or if the world demand falters anywhere in the region, that material flows to India because NTCF still has a fairly good demand in India. So, in China, the breakup would be similar, but as I said, it is to a large extent dependent on the various segments – how are the two-wheelers doing there, how are the tractors doing there. So, it cannot be an apple-to-apple comparison because the population mix is very different in many countries and the priorities are different in the countries. But China is a much better mirror or a comparison to India than any developed country.

Keshav Garge: Sir, lastly, like the previous participant mentioned, our net cash is already one-third of our market cap and the stock is trading far below book value. I am sure you must be proposing to the board, but if you could just enlighten your shareholders also that what is the thinking of the board that despite these facts being there, why is there reluctance to proceed ahead for the share buyback? So the understanding of shareholders will also increase.

Suresh Sodani: We have already informed the board and these are the decisions which have to be taken through the promoter as well as the board as a whole. So, as and when anything is done…. It can't be made public in terms of what is the thinking and it's not also shared with the management. The management's role is to act as a bridge between the investor and the board and which we are doing. We will come back in case there is anything and it will definitely be announced in the right forums if there is any decision taken by the board on that account.

Moderator: The next question is from the line of Aman Madrecha from Augmenta Asset Manager LLP. Please go ahead.

Aman Madrecha: During one of the previous con-calls, you mentioned that the profitability of NTCF is much better than the profitability of PTCF. Can you throw some more light on this like what are the dynamics that run behind it and how we are looking at the NTCF going forward?

Suresh Sodani: The response was more in terms of the current market scenario. But as I said, we are seeing that changing even in quarter. So, it can be similar or it can be different from what we had given in the past. And since we are now connected with the world in every way, a lot of interplays happen between the capacities and demand, not only in India but also in the region, and more importantly, as I said in China as well. These are interplays which can happen, but this was more a trend that we saw in the past, at least a few quarters and last few years. But with a more robust growth in PTCF, it is possible, and we are very hopeful that the similar profitabilities or better margins would also come in this segment because normally that gets associated with higher capacity utilizations and what kind of expansion demands are coming in. So, it's an interplay of multiple things. And the response earlier was more in terms of the pricing that is prevailing in the international markets.

Aman Madrecha: And also, sir, I am a bit new to this industry. So, I just wanted to understand what are the 1 or 2 triggers which you are looking at so that the NTCF profitability could come back to the normalized number of maybe 7% to 8% operating margin? We know that China is dumping and NTCF big time. Last quarter also, the caprolactam prices were around $1600 to $1650. So, what are the key 1 to 2 triggers that could lead to a jump in the profitability of this NTCF as a whole?

Suresh Sodani: One key trigger is pickup in exports of tyres to Europe. After a very robust growth in FY22, there was almost a 15% volume drop in tyre exports and the Ukraine war was completely unexpected and then the energy crisis and a lot of industries had to relocate or rethink on their utilizations and other things. We see that now Europe is more stabilizing, the energy prices are more stabilized; they have found out alternate ways of replacing Russian gas. That is one important trigger. Last year and in fact even previous quarters if we look at, the inflation was decadal high in almost all European Union and US. And since that is coming down, that is one positive trigger that once the inflation comes down, once the energy prices are more stabilized, the normal consumption patterns and the consumption that was there before the Ukraine war should revert. That is one important trigger. Second trigger could be the Chinese economy as such, which is less opaque compared to…. at least from an external world, we don't get the same kind of confidence in that versus what happens in Europe and US because of the way various indices or issues are reported. But that could be another big trigger if the Chinese economy were to stabilize and some of their stressed sectors like the real estate or other things get more normalized; these are one. The third is obviously our own GDP. If post election the push on infrastructure and farm sector continues, which is linked with more demand for tractors and OTR vehicles and if rural income were to improve consequent to that, also the two- and three-wheelers. These are the triggers which will have a definite impact on the total domestic demand for NTCF.

Aman Madrecha: Sir, last question. Can you just tell me today what is the total capacity across NFY, NTCF, and PTCF? For example, in FY24, what will be the total capacity as a whole for NFY, NTCF, and PTCF on a combined basis?

Suresh Sodani: There are some changes which happen because of the denier mix in terms of the tonnage. So, we had given on a normalized denier mix. It should be close to 94,000 once all projects are completed by Q4 FY24. And we are in that range, and except for now PTCF which should be commissioned in this quarter, we will be there in that range. It could be (+/-1,000) tonnes depending on the denier mix which is again based on the demand for various segments because it can change in the denier mix of the sectors that buy, but that is the range that we expect that the total capacity would be.

Aman Madrecha: Sir, if someone is supposed to come and set up 50,000 tonnes of NTCF plant today, what would be the cost because, we are getting hold in this thing as a whole. So, what could be the cost as of today as we can see the replacement cost of the total plant or total infrastructure we have?

Suresh Sodani: A very difficult answer to give, because a plant is not shut up only by the equipments which are used for manufacture of NTCF. There are a lot of utilities and other infrastructure that has to be made. So, we don't have an offhand answer to give what is the total CAPEX requirement for 500 tonnes per day because it is not easy to give the current cost of all the utilities that we have at both the sites. And that is also quite a significant CAPEX amount.

Aman Madrecha: Sir, lastly, what about the CAPEX you spent on this PTCF expansion?

Suresh Sodani: Close to Rs. 100 crores.

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

Anant Mundra: Sir, my first question is on the write-off that we have taken, the impairment of our investment in one of the associates. Sir, will this affect the savings that we were incurring in the power cost? Will there be any adverse effect there?

Krishna Ladsaria: Power cost goes as an operating cost for us. We purchase power from this SPV and the rates there are fixed for the period of this agreement. Those savings are separate, and this is a one-off item impacting their capital cost. In any case, capital is mostly funded on a very low equity base, so will not have an impact on the savings which is there.

Anant Mundra: What exactly has this affected, sir? I wasn't able to follow the answer that you had given to the earlier participant.

Krishna Ladsaria: Basically, if their project cost was Rs. 200 crores, it would have gone up by Rs. 10 crores and the project cost would have been Rs. 210 crores. And the extra Rs. 10 crores which they had to make available for alternate site, those have been impaired. The site which became not usable because of approval not received from defense, they have impaired that site and incurred those expenditure on alternate site. This is in the SPV.

Anant Mundra: The project is fully commissioned, right?

Krishna Ladsaria: The project is fully commissioned and it's operational; it's supplying. The land value which would have been there in their books and now it is not usable. So, they have impaired it.

Anant Mundra: What is the annual PTCF demand in India currently?

Krishna Ladsaria: Annual PTCF demand is somewhere between 28,000 to 30,000 tonnes per annum.

Anant Mundra: What is the growth rate expected? Will this track the growth rate of passenger vehicles or should it be higher or lower? If you can give some color on this.

Krishna Ladsaria: It will be somewhere higher than the passenger vehicle growth because there is replacement which also happens. Broadly, you can say that it will mirror the passenger vehicle growth.

Suresh Sodani: Also, as I said and maybe you are already tracking, there is a very large portion of tyre exports which happen from India, and even passenger car tyres are now approved from Indian manufacturers in multiple countries. That itself is also a trigger. And a lot of investments that tyre companies have made is all in the passenger car tyres plant. So, one is obviously the growth in the domestic consumption in the new cars as well as the replacement market but also the export of passenger car tyres.

Anant Mundra: But sir, the annual demand figure is 28,000 to 30,000. Our installed capacity currently is about 89,000 to 90,000, and the total demand from PTCF is only 30,000. Is it that NTCF is consumed more in tyres and the PTCF quantum is lower?

Suresh Sodani: Yes. NTCF is consumed more in the truck and bus segment and where the truck tyre weight is almost – as a very rough thumb rule – about 10x the weight of a car tyre. That obviously means that the reinforcement is 8x to 10x more per tyre consumed in a truck tyre versus a car tyre. That changes the dynamics of the tonnage significantly. Secondly, again, the two- and three-wheeler numbers are significantly higher on the road and new which are sold compared to the cars. That's the logic. Either the tonnage of the weight of the tyre is significantly high or the numbers as in two-wheelers is significantly high. That, on a combination basis, makes the NTCF market significantly larger than PTCF.

Moderator: The next question is from the line of Mehul Parikh who is an individual investor. Please go ahead.

Mehul Parikh: One of my first questions is that since we are saying that we have an impact from Chinese dumping, which part of that value chain got maximum impact? From caprolactam to nylon chips or from nylon chips to yarn or directly the yarn in all the three. So, which portion of it is impacted the maximum?

Suresh Sodani: Maximum impact is on both our finished goods categories. When we are buying raw materials, we are not impacted because the raw materials' domestic sourced pricing is always matching with the Chinese import pricing or the international pricing for that matter.

Mehul Parikh: No sir. What I mean is that we import caprolactam also and we import nylon chips also, right? So, we have a conversion from caprolactam to nylon chips. That portion is relatively less impacted or that is more impacted than nylon to yarn or finished product?

Suresh Sodani: The impact is mainly on the finished products because in that part, we are almost in line with what the Chinese are offering. And they are such significant capacities that that pricing is more on an index basis, on a more listed basis, whereas these products are not listed products. These are more contracts done directly by companies to the manufacturer. That is where the hit comes more in terms of the finished products. So, both our finished product segments are more hit. There is no significant impact on the purchases that we do, either from China or from India.

Mehul Parikh: So, the conversion cost that you mentioned in the presentation is the conversion towards the finished product side?

Suresh Sodani: Yes.

Mehul Parikh: The advance license imports which are happening vis-a-vis without an advance license, how much is the impact on that in terms of price percentage?

Suresh Sodani: What happens is that a product once is imported against an advance license, that much volume is reduced from the total demand available for the domestic market capacity.

Mehul Parikh: Right, but a trye manufacturer would be importing against an advance license because they are getting some cross-sell, right?

Suresh Sodani: Because they have advance licenses from exports made in the past and which were unused, and at that point of time, the Chinese prices were pricier compared to current pricing. So, they were not utilizing the full advance licenses at that point of time. Now, since the pricing is also low and they are able to get material easily from alternate sources, they are importing more against whatever is available with them. But since the pricing has also fallen even on full duty benefits also, they are able to compete with the Indian prices.

Mehul Parikh: Sir, for example, XYZ tyre company is importing on advance license vis-a-vis buying from Century Enka, they would be having some percentage advantage to do that, right? That is what I am just trying to estimate.

Suresh Sodani: They would have to pay the custom duty. There is a basic custom duty of 20% on NTCF.

Mehul Parikh: So, that is what they save on that.

Suresh Sodani: Yes, they save on that.

Moderator: The next question is from the line of Tushar Khurana who a retail investor is. Please go ahead.

Tushar Khurana: I have two questions, sir. One is the value addition that we are going to do for the NFY segment. I just want to understand when we can start seeing the impact of that value addition and when it will be coming on stream for us. And my second question is regarding there was some mention about the export market that we are looking at for the nylon filament yarn made from green polymer. If you could talk about these two things please.

Suresh Sodani: We have not invested anything further other than what we have done in our value-added hardware, but there is value addition also in terms of the different products that we can make from our current machinery, which are specific and unique for the particular customer. And that is where we do not face more price competition because they are very unique and the buyer or the customer has more confidence in sourcing it from us rather than importing from China or sourcing from any other domestic supplier. That category is what we call value addition in addition to where we do a secondary processing. Instead of selling base yarns, if we can give them a yarn with specific or different characteristics or parameters, which is helping them to get a typical or desired fabric, that becomes value added because we are able to realize a higher value through some small changes that we do in our processing which benefits the final customer and he is able to realize a better value for his finished product. And we continue to do that. We are already utilizing most of our normal value-added capacity where we add a process and we change the basic characteristics of the yarn and sell it directly to the final weaver. That portion is already continued. We continue to look at opportunities to grow into various segments instead of remaining in the base products where the competition intensity is high and that is the intention of mentioning that our whole strategy in the NFY segment is to look for more niche segments, more differentiating segments, and more value-added segments which are not easily importable or there is very specific requirement for a particular customer.

We continue to export though the quantity is very low, and we realize better value compared to virgin chips on those products. But there is a lot of seeding that is required and most of these yarns actually go to the western world – Europe particularly – which, as I mentioned, is still going through some geopolitical challenges. What we are doing more is getting approval and seeding of our products so that as and when the economy bounces back in the importing countries, we can scale up the volumes very fast.

Tushar Khurana: Are we also adding more applications for NFY to go deeper into this value addition?

Suresh Sodani: Yes, we engage with not only the weavers but also the final garmenters or final retailers to understand and also the trends of what is imported as fabric because we have to work with the value chain to see that we can give a product which the garmenters are satisfied with compared to the imported fabric, for example. So, we continue to work with them; and that is another way in which we try to add value to our NFY portfolio.

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

Anant Mundra: Sir, I just wanted to understand what is the per tonne realization on PTCF versus NTCF? How does it compare?

Suresh Sodani: I mentioned earlier we do not give specific product-wise details for competitive reasons. All numbers are reported as synthetic yarn on an average basis.

Anant Mundra: Not for the company, sir, but in general, is PTCF more expensive than NTCF or is NTCF more expensive than PTCF?

Suresh Sodani: As I mentioned earlier, in the current scenario, NTCF is more priced than the PTCF imports.

Anant Mundra: And sir, coming to the textile side or the NFY side of business, are we doing anything in technical textiles wherein there are some niche categories, something specific for brands, which is approval based? Is there anything that we are doing there where there is approval required for the brands?

Suresh Sodani: We supply some technical yarns to the fishnet segment, but we have not forayed into technical textiles used by brands or specific segments that way because that is still a development area. But we look at all the opportunities in case they come out because it requires a complete ecosystem and maybe a different set of hardware and competencies to cater to that segment. But that is something which we will explore in terms of opportunities that may open up for our segments in nylon.

Anant Mundra: Sir, there was a PLI that was announced for technical textiles. Have we participated in that, sir?

Suresh Sodani: No. In fact, we have not participated in any PLI because one is that the PLI doesn't look like a workable PLI in terms of the terms that they have put in and the second is we don't have any significant outlook on that segment in terms of growth. So, we have not either applied or participated in PLI.

Anant Mundra: But sir, is there anything tangible that you can share or anything that we are working on in technical textiles which could be probably for defense or maybe the badminton strings? Because, all of that is majorly imported. Is there anything that we are doing on that end?

Suresh Sodani: No. As I said, there is no specific initiative to currently report on, but these are always items which we are exploring. It is only at an exploration stage because there are a lot of competencies and hardwares which are specific to deliver requirements of technical textiles. And it's not easy to switch from making normal filament yarn versus a technical textile yarn in terms of meeting that requirement. We can do something similar. As I said, we do supply to the fishnet segment because it is very similar to the yarn we are currently making, but other yarns and other finished products require a different ecosystem to make that. And these are only at the exploratory stage; we have nothing concrete to report as of now.

Anant Mundra: Even for the fishnets that we make, that is going mainly to the unorganized sector or that is going to brands to the organized sector?

Suresh Sodani: I am not aware that there are fishnet brands, but there are large producers of fishnets to whom we sell.

Moderator: I now hand the conference over to the management from Century Enka Limited for closing comments.

Krishna Ladsaria: We thank everyone who has joined the earnings call. Hope we were able to answer all the questions. If there are any further questions or you would like to get more information, you can reach out to our investor relations manager at Valorem Advisors.

Moderator: On behalf of Century Enka Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.