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Bodal Chemicals Limited

Q2 FY2017 Earnings Conference Call

November 11, 2016

**MANAGEMENT: MR. ANKIT S. PATEL – EXECUTIVE DIRECTOR,
BODAL CHEMICALS LIMITED
MR. MAYUR PADHYA – CHIEF FINANCIAL OFFICER,
BODAL CHEMICALS LIMITED**

Moderator: Good day, ladies and gentlemen, and welcome to the Bodal Chemicals Q2 FY2017 Earnings Conference Call. Joining us today on this call are Mr. Ankit Patel – Executive Director and Mr. Mayur Padhya – Chief Financial Officer. 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. Before we begin, I would like to mention that some of the statements made in today’s call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the ‘Earnings Presentation’. With this, I would now like to hand the conference over to Mr. Ankit Patel. Thank you and over to you, sir.

Ankit Patel: Welcome, ladies and gentlemen and thank you for joining the Q2 FY2017 Earnings Conference Call of Bodal Chemicals. I also have with me on the call Mr. Mayur Padhya – CFO of Bodal Chemicals. I hope you have had a chance to go through the ‘Earnings Presentation’ and ‘Financial Results’ which are also available on the company website.

As many of you might know, Bodal Chemicals is one of the leading manufacturers of Dye Intermediates and Dyestuff globally. In India, we are the most integrated Dyestuff manufacturer and also the largest producer of Dye Intermediates. We use close to half of our Basic Chemicals output in-house in the manufacturing of Dye Intermediates. Also, approximately 40% of our Dye Intermediates output is used in-house in the production of Dyestuff. This level of integration is what differentiates Bodal Chemicals from its peers.

Talking more specifically about the second quarter of FY2017, operating conditions continue to be favorable and contributed to a strong second quarter for Bodal Chemicals across all product segments. In particular, realizations for Dye Intermediates remained high and the demand of Dyestuff in domestic market was encouraging.

Just to give you an update on the new opportunity that we are working towards: First, the Specialty Chemicals that will be produced by our 42% owned associate company Trion Chemicals. During the quarter, the required machinery was installed and we are on track to start production in the current half of financial year 2017, as previously promised.

The second product is LABSA, an anionic surfactant used in formulation of domestic detergents powder, cake and dish wash cleaners. We started commercial production 5-6-months back and have decided to double its capacity.

The third product is Liquid Dyestuff, which is primarily used in paper industry for coloring paper. We are one of the very few companies engaged in the production of this particular chemical.

During Q2 FY2017, the Board of Directors approved expansion of our Dyestuff capacity. In the first phase, we expect to increase the capacity by 8,000 MTPA taking the total Dyestuff capacity to 25,000 MTPA. Capacity would be further expanded by another 16,000 MTPA over

the following three years. You may refer to Slide #5 of our earnings presentation for details regarding capacities of each of these product groups.

I will now hand over the call to Mayur bhai, our CFO, to take you all through our financial performance during the quarter.

Mayur Padhya:

Thank you, Ankit bhai. Good afternoon everyone and thank you for being with us today. In terms of financial performance, it has been yet another strong quarter for Bodal Chemicals. Total standalone income increased 30.2% year-on-year to Rs. 3,310 million supported by increased finished goods prices, better product mix, and growing demand for our products in the domestic market. EBITDA expanded by a robust 37% year-on-year to Rs. 601 million and margin stood at 18.2%, which is 91 basis points higher compared to the same quarter of last year. Net profit grew by 45.6% year-on-year to Rs. 340 million and margin stood at 10.3%, which is 109 basis points higher compared to the same quarter of last year.

You may refer to Slide #9 of the earnings presentation for a comparison of half yearly financials.

Referring to Slide #8, the share of Dye Intermediates in our total revenue stood at 66.6% during the first half of FY2017 compared to 55.3% during the same period of last year. The share of Dyestuff stood at 24.6% in the current year as compared to 36.6% last year.

Our total debt to equity has improved to 0.5x from 0.6x over the first half of this fiscal year. Net debt to EBITDA has improved to 0.73x from 0.84x over the same period. I wish to reinforce our continued commitment to financial discipline and shareholder value creation in the times to come.

On that note, I would like to open up the floor for an interactive Question-and-Answer Session.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan Vishwanathan:

Regarding H Acid and Vinyl Sulphone, can you tell us the price range in Q2 and also what is it now?

Mayur Padhya:

For H Acid, its normal. There is not much of fluctuation and price for last quarter was about Rs. 357 and the prevailing price is also at the same level of about 350. It had raised to Rs. 375 about a one month ago. As for Vinyl Sulphone, last quarter our average realization was about Rs. 310 and present price trend is about Rs. 400, which had also increased up to Rs. 425 or so one month before. But normally, we have experienced that third quarter remains a bit slow because of the Diwali holiday and demand internationally is also low because of Christmas, etc. Considering all the factors, prevailing price of Rs. 400 is very good for us.



- Sarvanan Vishwanathan:** With respect to Q2's income growth, can you break up into price-led and volume-led?
- Mayur Padhya:** The growth is about 30% and as far as breakup is concerned, quantitative growth contributed about 13% y-o-y balance about 17% y-o-y is led by prices.
- Sarvanan Vishwanathan:** You have given first half breakup, so Q2 how much was the Intermediates and Dyestuff sales out of Rs. 331 crores shown?
- Mayur Padhya:** Q2 Dye Intermediates growth was about 12%, I am talking about quantitative growth and Dyestuff was about 15%.
- Sarvanan Vishwanathan:** In the sales breakup sir of Rs.331 crores, how much is Dyestuff and how much is Dye Intermediates?
- Mayur Padhya:** That we have mentioned about 24% or so in Dyestuff.
- Sarvanan Vishwanathan:** Balance of the sales is predominantly from Dye Intermediates and followed by LABSA and Basic Chemicals?
- Mayur Padhya:** No, LABSA figure has not yet been included; it is still in a separate company, and we have not yet merged that company. So figures are on standalone basis.
- Sarvanan Vishwanathan:** So only Dye Intermediates, Dyestuff and some Basic Chemicals?
- Mayur Padhya:** Yes.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir, in your presentation, there is a mention of some environmental supply side issues in the major producing countries. So can you please elaborate more on that?
- Mayur Padhya:** It is related to China. China made a late entry in this business; they started business majorly after 2000. In the initial ten years, they were not following the environmental norms which they were required to follow. Whatever effluent they generated in a liquid form, they simply put into river or on open land and these things were noticed by the Chinese government three-four years before and now Chinese government has become strict against such violation. So for them it is required to treat whatever effluent they generate and then only they can run their manufacturing facilities. Particularly, in Dye Intermediates, the treatment cost itself is very huge, and in some of the products it is up to 20%. So they were enjoying this benefit earlier because Indian manufacturers are complying with all these norms since 1996 and awareness was created. So their cost of production was lower as compared to Indian manufacturers. Now, they need to comply. In this segment, India and China are the two players particularly in Dye

Intermediates. So that is why, a very good opportunity has come up for Indian manufacturers and bigger manufacturers like Bodal. This is what we wanted to convey by that message.

Shashank Kanodia: Consequent to this, are these plants entirely shutting down or are they just temporarily shut down so as to make them effluent ready?

Mayur Padhya: They are working, but earlier they were producing whatever they wanted to produce. But now they can produce to the extent they have the effluent treatment facility. So they need to build up the huge effluent treatment facility and then they can run their plant. So, production is going on but new facilities are not coming up and even existing facilities are struggling to meet their optimum capacity utilization.

Shashank Kanodia: So this bump up in realizations is here to stay for another year and a half or what is the outlook on the pricing front?

Mayur Padhya: Since last three years, we have been experiencing these good numbers. In China, some or the other issue is coming up and so margins in India have remained better. Even if the things stabilized, we are confident that because of our integration level, 15-16% EBITDA level is very much achievable.

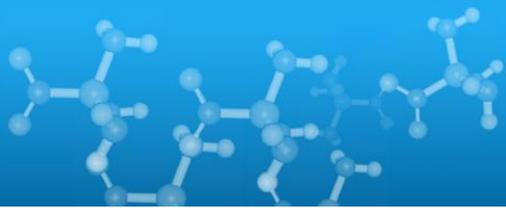
Shashank Kanodia: How are these compliance procedures for us; is our industry more compliant vis-à-vis the Chinese players and is the Indian government kind of strict on this part?

Mayur Padhya: Yes, we have complied with all these norms. In India, this industry started mainly in 1980 and from 1980-96, even Indian manufacturers were not complying the way they should have complied. But in 1996 because of the Gujarat High Court's verdict, they closed many of the units near Ahmedabad because of pollution related issues. At that time "Common Effluent Treatment" concept has emerged and manufacturers started manufacturing once again. Although, the awareness which was created in China in say 2012, that awareness was already created in 1996 in India. So, Indian manufacturers have matured very much in last 20 years. So whatever they are required to comply, they are complying. There is no threat on this front from government or any other institution.

Shashank Kanodia: Have there been any plant closure notices being issued to us in the past three to five years?

Mayur Padhya: Particularly, the monitoring body is Gujarat Pollution Control Board as well as Central Pollution Control Board. They can come up at any time and take a sample. If the samples are not complying with the way they should have, then they can give a closure notice to the unit. Then we need to once again show them that we have been complying with all the norms as required and at the interval of 15 days or a month, we can once again start the production. This is normally happening in this industry.

Shashank Kanodia: What is the average effluent treatment cost for us as a percentage of sales?



- Mayur Padhya:** It is very difficult to say, because we have 125 products; it differs from product to product.
- Shashank Kanodia:** If this cost is high, maybe smaller players will be eventually wiped off from the industry? Is that the case?
- Mayur Padhya:** Slowly and gradually that process is going on because for all smaller players to build up a bigger effluent treatment plant is not possible - because of the funds needed as well as the land or the facility they have. In Bodal Chemicals, we have set up advanced effluent treatment plant at the cost of Rs. 30 crores about 1.5-years before. And we were the first to set up such a plant. So, for smaller players to build such plants and comply in coming times would be difficult.
- Shashank Kanodia:** Sir, regarding the pricing, you mentioned this quarter the average H Acid price was Rs.357/Kg, right. What was the figure last year in Q2 FY16 if you can share that?
- Mayur Padhya:** I do not have the exact number on hand. Last year was almost a normal year, no abnormal movement in VS or H Acid was there, hardly Rs.350 or so only. The year before it was higher compared to 2015.
- Shashank Kanodia:** As the prices move up, everything flows to a bottom line or is there substantial increase in a raw material cost as well for Dye Intermediates because I think largely raw materials are sulphuric acid or other acids?
- Mayur Padhya:** Even raw material costs are also fluctuating because majority of the raw materials are related to crude and whenever there is a movement in crude, something is passed on to our raw materials cost.
- Moderator:** Thank you. The next question is from the line of Kishore Kumar from Karvy. Please go ahead.
- Kishore Kumar:** What is the market share of Dye Intermediates and Dyestuff at global level?
- Mayur Padhya:** For Bodal Chemicals in Dyestuff, our share in India is about 8-10% and world level it is about 2-3%. For Dye Intermediates our Indian share is about 20% and globally it is about 5-6%.
- Kishore Kumar:** What about the Specialty Chemicals?
- Mayur Padhya:** Specialty Chemicals we are entering into and there are very different products; to give a specific share in that segment is difficult.
- Kishore Kumar:** So my next question is related to the capacity expansion. Could you give some sense on capacity utilization rate currently for Dyestuff - how much it is?
- Mayur Padhya:** In Dyestuff, present utilization is in between 75% to 80% and in Intermediates it is about 80%.



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

Archit Joshi: Building on from the question of the earlier participant, asked about the environmental issues faced in the Dye Intermediates sector - there was a major shutdown of a Chinese company called Hubei Chuyuan. I just wanted to get some sense, what would be the potential threat if the capacity is revised and how would it affect the dynamics in the Dye Intermediates industry in India?

Mayur Padhya: Hubei Chuyuan is still closed, they are not operating. What we learn from the sources, they may not be able to start in current calendar year but maybe in FY2017 they can start the production. Also, initially they will be able to start the production of Dyestuff only, because for Intermediates they need to have effluent treatment facility and their plant size is maybe 10 times bigger than the Bodal's plant size, so to build up that effluent treatment facility itself is a challenging job. Slowly and gradually they will build up the facility, and then they will be able to start the production.

Archit Joshi: Does that mean the higher realizations that we are a key beneficiary of at the moment, will come down substantially or how is it going to be like?

Mayur Padhya: That is what I wanted to explain. Whenever they are able to start even Dye Intermediates they would not be able to start it fully, maybe 20%- 25% that much they can start. So whatever gap is there in demand/supply partially that maybe filled up and gradually demand is also increasing. So we are not experiencing or expecting any major threat because of their starting. Yes, some abnormal prices to some extent prevailing in Dye Intermediates may normalize. So the year FY2016 that was for Bodal - those kind of prices may stabilize.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Sir, my question is related to capacity, like what is the growth we are targeting? Let us say in FY2018 once we have the new facility coming in?

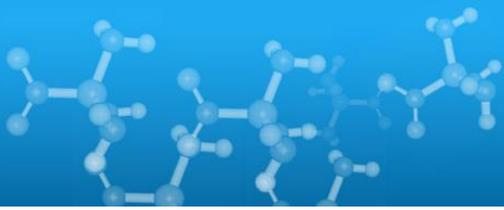
Mayur Padhya: In F20Y18, we are targeting to start our new Dyestuff facility that is about 8,000 MTPA and once that facility starts, our internal consumption of Dye Intermediates will increase. After netting off that from Dye Intermediates sales which will get lower by that facility, we are targeting about Rs.140-150 crores of net additional revenue generation by that facility.

Giriraj Daga: That should mostly happen in FY2018 itself fully?

Mayur Padhya: No, once that facility starts, then thereafter slowly and gradually that will happen. At the first phase itself it would not be possible.



- Giriraj Daga:** Sir, you mentioned somewhere that LABSA has not yet shown in the company? It is not a part of the standalone operations, right?
- Mayur Padhya:** Yes.
- Giriraj Daga:** Means that it is yet to start, that what you want to say?
- Mayur Padhya:** No, production has already started in LABSA but it is in separate name – Bodal Agrotech Limited, the wholly-owned subsidiary company and amalgamation process of that company into Bodal Chemicals is on the verge of completion and we are expecting maybe in this month, waiting for the high court's order. So most probably next quarter whatever result we will publish, that will be including LABSA.
- Giriraj Daga:** What can be the total peak revenue from this 18,000 tons?
- Mayur Padhya:** 18,000 tons, we can expect about Rs.100 crores p.a.
- Giriraj Daga:** Should take about two years to reach full utilization?
- Mayur Padhya:** No, this is kind of a commodity product, where we do not require much of time - once we intend to we can reach within 6 months or so.
- Giriraj Daga:** When I was looking at the investment like in this Trion Chemicals, it is part of our investment as of now? I am not able to see the investment in the Trion Chemicals name. So it is part of which company?
- Mayur Padhya:** Yes, you are correct, at present it is not in investment, it is in loans and advances, so it has not been converted to equity and it is in the process.
- Giriraj Daga:** So, by when we will be converting that equity and what is the process?
- Mayur Padhya:** Yes, about Rs.15 crores will be transferred from loans and advances to investment. We are targeting a time frame of 2-3-months.
- Giriraj Daga:** So that Trion Chemicals Company has not started operations as of now?
- Mayur Padhya:** No, company's production is yet to start, but project is almost on the verge of completion and we are targeting to start production in this second half of the current fiscal.
- Giriraj Daga:** What can be the peak production from this 12,000 tons?
- Mayur Padhya:** We can achieve utilization of 85-90% of the capacity, maybe even higher than that because it is a continuous process, it does not require much of changing or something like that.



- Giriraj Daga:** Revenue from that?
- Mayur Padhya:** Revenue could be Rs.225 crores or so once we reach to that level.
- Giriraj Daga:** Who is the remaining 58% shareholder?
- Mayur Padhya:** There is Raj Chemicals Group - they are group of Gujarati people, and we are doing business with them since 5-6-years.
- Giriraj Daga:** Our total investment is Rs.15 crores in that?
- Mayur Padhya:** Yes, investment is Rs.15 crores that may increase by Rs.4-5 crores more.
- Giriraj Daga:** What can be the PAT margin for this kind of business at normal stabilized operations? I am not saying the first year or second quarter.
- Mayur Padhya:** EBITDA we are expecting more than 20% and interest, depreciation would not be much higher, so we can target 15% or so.
- Giriraj Daga:** Then looks like on Rs.225 crores maybe in the third year of operations, we will be doing Rs.30 crores profit and our share can be as high as Rs. 12-13 crores on investment of just Rs.20 crores. Is the thought process right?
- Mayur Padhya:** Correct, it is a very ambitious project for us.
- Giriraj Daga:** I just wanted to understand - how did we get into this company, like we supplied loan and advance to them and they were not able to repay or it was a pre-planned agreement that it will be converted into equity?
- Mayur Padhya:** It is our mutual understanding, because these are the people who have helped us in developing our liquid plant. So, we have a good relation and association since 5-6-years. So there is no issue or something like that. It is under process only.
- Giriraj Daga:** Production of Liquid Dyestuff - our capacity is about like 10,800 tons we have mentioned in our presentation. So when that is likely to start?
- Mayur Padhya:** The production has already started, but present capacity utilization is at a lower level, it is about 20-25% only and we will reach to optimum level within 3-4-years.
- Giriraj Daga:** What can be revenue from this at a peak level?
- Mayur Padhya:** Revenue is about Rs.100 crores what we can get from this.



Giriraj Daga: In the first half, if I see the inventory and debtors have gone up. So is it like normal course of business? In September it has gone up and March we have just curtailed down or they have actually gone up in the system?

Mayur Padhya: If you compare the number of Q4 of last year, sales were Rs.203 crores which has increased to Rs.330 crores in this year. So once we convert that into number of days based on the last quarter number, they are almost same. In the latest level if we talk about, in the March quarter, it was 74 days, which is about 73 days at present, creditors earlier was 57 days, now it is 54 days and stock is also at the same level. But we have a very little pile up of inventory, this may get regularized by the March end.

Giriraj Daga: Just to confirm that you said current Vinyl Sulphone prices of about Rs.400 and last quarter average was Rs.310?

Mayur Padhya: Correct.

Giriraj Daga: Last clarification: when I look at like last year annual report in the product wise break up, we have H Acid as a raw material worth about Rs.100 crores for FY16. So the finished products and basically the raw material prices must be linked. So our revenue was about like 19%, so that makes it about you can say Rs.190 crores and Rs.100 crores is on the raw material side? So we will only make money on the fixed cost on the remaining part of the cost I mean to say? In other words, with H Acid prices going up, is there any benefit or it is just a pass on like we do not make much money there on the price?

Mayur Padhya: No-no, whenever there is a fluctuation, we do consider sometime to purchase the H Acid because we consume about 40% in-house. So whenever there is an opportunity we feel like that in future prices may go once again up, we purchase at a lower level and most of the production we sell in the market. So, sometime it happens, whenever there is fluctuation.

Giriraj Daga: So, I cannot just link the two numbers basically?

Mayur Padhya: In that case you cannot link. Whenever the price moves up, definitely benefit comes to us.

Giriraj Daga: Because in last year we had shown about 18.95% as a per cent of total turnover from H Acid, similarly about 20% from Vinyl Sulphone?

Mayur Padhya: Correct.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: I just wanted to understand in the segment breakup that you have given, our contribution from Dye Intermediates is much higher in H1 this year as compared to last year. So is this a

conscious strategy because of the market prices or is it because in Dyestuff we are having capacity shortage and hence we are doing incremental business from Dye Intermediates?

Mayur Padhya: No, it is kind of a conscious strategy. Our overall long-term strategy is to increase Dyestuff but at present it is a time gap arrangement because in Dye Intermediates prices and margins are better compared to Dyestuff. So, that is why we have sold Dye Intermediates. There is no capacity constraint for Dyestuff as such.

Anand Bhavnani: Sir, the expansion in Dyestuff which will happen in FY2018 - the 8,000 tons, any particular quarter you are targeting for this expansion to come online?

Mayur Padhya: At present our project team is busy with the Trion project. So once they are relieved from there, then we will start this Dyestuff facility work.

Anand Bhavnani: I think the entire management is focusing on Trion. Then maybe depending upon how Trion materializes, whether Q2 or Q3 or Q1 of FY2018 we will get the expansion we are looking for?

Mayur Padhya: Correct, once we start it will take 8 to 10 months and we have not started yet.

Anand Bhavnani: Sir, this China's Hubei Chuyuan shutdown was in June and then in September we had the G20. So to a certain extent our expectation on Q2 is already fantastic or were you expecting it to be more fantastic because there was this G20 for 2 weeks, and if you have to even look at the top line, the top line has grown phenomenally quarter-on-quarter, but bottom line has not much as compared to the June quarter, so the majority of the growth has been taken away by similar growth in the cost of raw material. Sir, can you highlight why is it that the cost of raw material has gone up so much?

Mayur Padhya: There are certain raw materials for which cost has gone up like Naphthalene, which was nearly about Rs.40 in earlier quarter, that has moved up to Rs.50 in the last quarter-end. Whenever there is a hike in prices of the raw materials as well as finished goods, percentage margin will go down, because we normally try to monitor our margin in terms of per Kg margin and not as a percentage margin.

Anand Bhavnani: So if the prices go up and if rupee margin remain the same, our percentage margin come down, our working capital in fact might go higher?

Mayur Padhya: Yes, in absolute terms, we will not find much difference but in percentage terms yes, you will find some difference there.

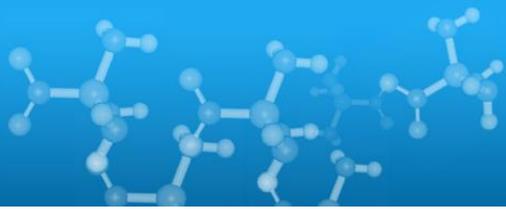
Anand Bhavnani: This LABSA business under Bodal Agrotech, currently in Q2, what was the capacity utilization in LABSA and is it breaking even now?

Mayur Padhya: Yes, it started breaking even and utilization was about 60%.

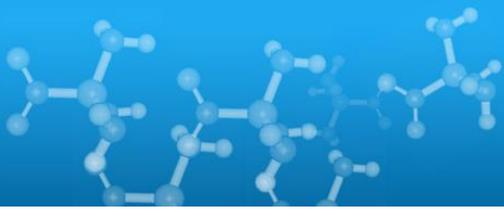


- Anand Bhavnani:** If I recall correctly from our previous discussions, the target from this business is like Rs.100 at full capacity utilization. So currently, it is 60% capacity utilization. If we assume it continues, for the year the revenue could be around Rs.60-70 crores. Am I correct for LABSA?
- Mayur Padhya:** It could be above Rs.50 crores or so, because gradually we have reached that level.
- Anand Bhavnani:** So in the first quarter, because it was underutilized?
- Mayur Padhya:** Yes, the first quarter it was not fully utilized, but when we did the concall for the first quarter at that time we had started utilizing around 50% of the capacity.
- Anand Bhavnani:** We are already doing 60% and breaking even?
- Mayur Padhya:** Yes.
- Anand Bhavnani:** Sir, what would be the breakeven level for our Trion plant in terms of tons or at what revenue do we anticipate Trion to breakeven? When are we targeting to get to that level?
- Mayur Padhya:** Frankly speaking, it's a new project and in India this is the first time we are going to manufacture it, so breakeven data is not available with me, but margins will be very good that is what we can say.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.
- Saravanan Vishwanathan:** Sir, we are in the middle of Q3. So when you say Trion commercialization will happen in H2, can we assume it will happen only in Q4?
- Mayur Padhya:** May be in January or so.
- Saravanan Vishwanathan:** Will we have any commercial sales or only trial batches and trial production in this financial year?
- Mayur Padhya:** In this current financial year, we cannot expect much commercial production because it is a new technology, it is a new project, so it will take some time to stabilize.
- Saravanan Vishwanathan:** Even commercial sales will happen in FY2017 and if I heard you right, you are expecting about 25-30% of the capacity to be utilized in the first year, and that would give us what kind of revenue?
- Mayur Padhya:** Correct, it can be about Rs.50-60 crores.
- Saravanan Vishwanathan:** So Rs. 50-60 crores from Trion Chemicals and close to Rs.150 crores additional revenues from new dye capacity after adjusting for utilization of Dye Intermediates?

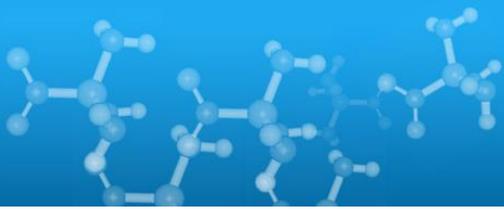
- Mayur Padhya:** Correct.
- Sarvanan Vishwanathan:** In LABSA, what could be the incremental revenue in FY2018?
- Mayur Padhya:** For LABSA, at the present capacity we can reach up to Rs.100 crores and we have decided to double the capacity once we conclude that, then we can consider Rs.200 crores annual capacity. We have not started that work, but it will be started.
- Sarvanan Vishwanathan:** Yes, that is the total capacity, but what kind of revenues you are expecting from LABSA in FY2018?
- Mayur Padhya:** FY18 that depends upon when we conclude doubling the capacity.
- Sarvanan Vishwanathan:** Current year, are we using full capacity in LABSA or what kind of utilization happening there?
- Mayur Padhya:** Presently about 60% capacity has been utilized.
- Moderator:** Thank you. The next question is from the line of Dhiraj Dave from Samwad Financial. Please go ahead.
- Dhiraj Dave:** One thing I just wanted to know, on pollution side, basically, are we in process to get European rate standard as it gets applicable? Because what I understand is that post 2018, there is some restriction for the companies which are not complying with European rates. So are we complying with those standards or we are in process or it is not applicable to us?
- Mayur Padhya:** No, this is something which is not applicable to us as far as my knowledge is concerned.
- Dhiraj Dave:** Secondly, on Slide #14, we understand that our company has given some approval up to 10 lakhs kind of a thing, the best we can probably put into. So are we looking at continuing with this arrangement or over a period of time we intend to have effluent treatment plant and not to discharge anything out of our system. Are we looking at something like that or we will continue to use this option which is available?
- Mayur Padhya:** Till the time we are not forced to discontinue, we are going to continue that facility. But we are already equipped, if we are forced not to use that facility, then also we have built up the required capacity effluent treatment plant which can be used. Also whatever we discharge, we need to complete primary treatment and after that we can do. It is not that without any treatment we can dump.
- Dhiraj Dave:** Basically we do have debt, we do have a CAPEX plan and the company also tries to manage and kind of give a good amount of dividend also which we appreciate. Do we have any dividend policy? What is the CAPEX in that context over next two-three years which you would be looking at; whether internal accrual is sufficient and whatever our free cash flow how exactly we look at utilizing that?



- Mayur Padhya:** So as far as dividend is concerned there is no specific declared policy, but internally we are considering about 10% of the profit, we can use for dividend. With respect to CAPEX, presently management is of the view not to incur any debt and whatever expansion we will do, that will be from internal accrual only. So for two years we are considering this strategy in our minds.
- Moderator:** Thank you. The next question is from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.
- Suvarna Joshi:** Sir, if I see the numbers, at the top line level we have fared quite well compared to the first quarter of FY2017, but I just wanted to understand what exactly is happening? Why are we growing in single digit at a bottom line level, am I missing something that is what I am trying to understand?
- Mayur Padhya:** We had discussed something on this earlier. We are focusing mainly on per Kg margin, so whenever there is a fluctuation in the raw material as well as finished goods prices, percentage wise we will see lesser EBITDA.
- Suvarna Joshi:** Understood. If I see sequentially other income has quite significantly gone up. So what is this - is it the treasury income that we have booked based on mark-to-market?
- Mayur Padhya:** No, it is not marked-to-market. We sometimes have some spare cash that we invest into mutual funds. So that is mainly because of interest income and there is some interest that we have charged on Trion Loans and advances.
- Suvarna Joshi:** Should we expect this kind of other income level to be a normalized level of income or can it be higher than this?
- Mayur Padhya:** Not much higher than this, but it can happen.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** In Dyestuff on a blended basis, are prices up by 20% YoY or like 25% YoY or are they largely towards the Dye Intermediates prices only?
- Mayur Padhya:** Yes, they are largely followed by Dye Intermediates. Whenever there is a fluctuation in Dye Intermediates, slowly and gradually within two to three months that are passed onto Dyestuff.
- Shashank Kanodia:** Huntsman is a key client, right, in the Dye Intermediates segment?
- Mayur Padhya:** We are supplying to them but they are not a very big client for us in Dye Intermediates.
- Shashank Kanodia:** What would be your percentage share of revenues coming from Huntsman?



- Mayur Padhya:** 3-4%, may be even lesser than that. For us, the bigger customer is BASF for Dyestuff.
- Shashank Kanodia:** So for BASF, which plants do you supply from? As in is it in India or abroad?
- Mayur Padhya:** Both, globally as well as locally.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.
- Anand Bhavnani:** There was a disclosure in the exchange that we sold land in Ankleshwar and I think the amount was Rs.5.3 crores. So just wanted to understand, is there any additional new land being bought in other locations like Vadodara or anywhere else to expand or it was just that we sold and we do not need any additional land?
- Mayur Padhya:** This plant we built up in 1997, but then we built up a much bigger plant near Padra, so this capacity was idle since four, five years. And this is in GIDC, so there was no possibility to further expand over there and it was a kind of idle asset for us. That is why we have discarded. For future expansion we already have enough land at Padra.
- Anand Bhavnani:** Sir, with this Chinese competition, you mentioned that it is not expected to start in this year. Next year do you have any sense whether it will be in Q4 of FY2017 or Q1, Q2 of FY2018, any indication on that front?
- Mayur Padhya:** We cannot say specifically, but what we are learning is that may be in the last quarter of this year, they can start Dyestuff production.
- Anand Bhavnani:** Full online capacity for Dye Intermediates, Basic Chemicals and everything, industry is coming to normal, any insights on how long?
- Mayur Padhya:** No, that is very difficult to say, even for them also.
- Moderator:** Thank you. The next question is from the line of Hemant Jain, individual investor. Please go ahead.
- Hemant Jain:** From the market share front, in one of your comments, wherein you said the market share of Dyestuff and Dye Intermediates was say about 8-10% and in Dye Intermediates about 20% in India, right?
- Mayur Padhya:** Correct.
- Hemant Jain:** I just wanted to know - are we the biggest ones in this or where do we rank on the national chart in this particular space?



Mayur Padhya: For Dye Intermediates we are the biggest, and in Dyestuff there are other two-three companies which are parallel to us.

Hemant Jain: So the market share of those companies would be also the same, say about 8-10%?

Mayur Padhya: Yes, 8% to 10% or so, they are also having such a market share.

Moderator: Thank you. We take the last question from the line of Ravi Ranjan Kumar, individual investor. Please go ahead.

Ravi R Kumar: I just wanted to take clarity on the revenue numbers which you are targeting for this financial year-end and probably if you can give some guidance on next financial year what could be the numbers. What are you targeting in the EBITDA levels which you think you would be able to maintain going forward?

Mayur Padhya: Top line number, it is difficult to say because even in last year what has happened is that we did Rs. 500 crores in first half when crude prices remained at lower levels and then we could complete with only Rs.400 crores or so in the second half. So that is linked with crude prices and other raw material prices. But since we have completed half year with Rs.600 crores it is sure that we will cross Rs.1000 crores. So far as EBITDA is concerned, more or less it will remain at the same level initially, but even if we remove the abnormal profit, then also we are very much confident to achieve 15-16% EBITDA for a longer level, and by that time even our new facilities which will pick up say Trion or Liquid Dyestuff and LABSA, so bottom line will not get affected anyhow.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Mayur Padhya for his closing comments, over to you sir.

Mayur Padhya: Thank you. I would like to thank everyone for joining our earning conference call. In case any of your questions have remained unanswered, I request you to please send it across to us. Have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Bodal Chemicals Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

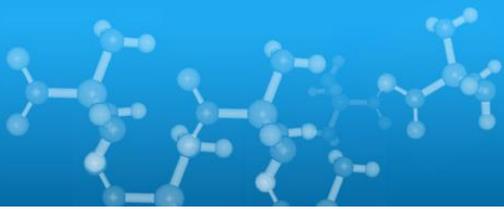
Note: This transcript has been edited to improve readability

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