



“Bodal Chemicals Limited Q4 & FY23 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Bodal Chemicals Limited Q4 FY23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit Patel – Executive Director, Bodal Chemicals Limited. Thank you and over to you, sir.

Ankit Patel: Thank you very much. Good evening, everybody. On behalf of Bodal Chemicals Limited, I extend a very warm welcome to everyone for joining us on the call today. On this call, we are joined by our CFO – Mr. Mayur Padhya. I hope everyone had an opportunity to go through the financial results and investor presentation which has been uploaded on the stock exchange and our Company's website.

We will give you a quick overview of the recent developments in the chemical industry and then Mr. Mayur Padhya will walk you through the “Operational and Financial Performance” for the Q4 FY23 and Financial Year ‘23 full year.

Global inflation has affected the end user markets like textiles, paper, plastic, agro chem, water treatment, chemicals etc. Consumption of end user industries has been sluggish due to the overall slowdown in the global market. Uncertainty about closure of the war between Russia and Ukraine is one of the responsible factors for inflation in European market which has led to the decelerated demand scenario of the chemical industry. The two major markets, the United States and the European market have been slow for more than a year now owing to the multiple headwinds from rising inflation to uncertain geopolitical scenarios. China’s growth has been slow, which has affected the prices of key commodities around the world, including dye stuff and dye intermediates.

At Bodal, we are India's largest integrated manufacturer of dye stuff and dye intermediates and hold a meaningful market share in the world. In today's environment where Indian suppliers are emerging as preferred partners globally, we have been able to hold our leadership position.

Coming straight to the “Operational Performance”:

Overall business performance for FY23 has been weak as the Company's total revenue stood at 1,586 crores, a degrowth of 23.5% due to the subdued performance of dye intermediates and dye stuff. Lower demand and price volatility of key raw materials has affected many textile players in India resulting in sub optimum capacity utilization and inventory destocking and slow exports.

Coming to “Dye Intermediates”:

At present, dye intermediates like H-Acid and Vinyl Sulphone pricing has been at lower level putting a strain on the industry players. For Q4 FY23, total revenue from dye intermediates stood at 136 crore. H-Acid and Vinyl Sulphone prices were near to Rs. 422 and Rs. 227 per kg. Being an integrated dye stuff manufacturer, we produce major dye intermediate products and over 40% of these intermediates capacity is captively consumed by resulting in a cost advantage for our dye stuff products. The balance capacity of dye intermediates is served in both domestic as well as global markets. Many intermediate players in India are still under pressure due to slow demand. Going forward, we can expect a nominal improvement in the dye intermediate business.

Coming to the “Dye Stuff”:

End applications like textile, leather, paper, consuming industries have not been performing well during the last few quarters. All leading textile companies are facing global headwinds which have curtailed the outlook for dye stuff products. The dye stuff business for Q4 FY23 stood at 99 crores.

Coming to basic chemicals, about 50% of our basic chemical is captively used for dye intermediates. Our overall basic chemicals contributed around 39 crores for Q4 FY23.

Coming to “Chlor-Alkali business”:

The Chlor-Alkali business continued to perform reasonably well with revenue of 327 crores for FY23, driven by a healthy volume uptake. During the quarter, the realization of caustic soda has been normalized. Our Chlor-Alkali business will contribute meaningful business in the coming period on the back of technology upgradation. We foresee demand for caustic soda to remain healthy from FMCG, textile, paper and other industries. Since very few players have a presence in North India, we will have a competitive edge to a certain extent.

Coming to the “Benzene Derivatives Greenfield Project”:

As highlighted in the earlier call, our main goal is to replace imports and capture business in the pharma and agrochemical markets where PNCB and ONCB are used. We will be installing the capacity of 63,000 metric tons per annum of Benzene Derivatives. The Saykha Greenfield project is progressing well and is expected to start the trial run by September 2023.

Most of our subsidiaries have reported a satisfactory performance except Sener Boya. The heavy earthquake in Turkey has affected Sener Boya’s performance for the quarter. In a medium to long term view, these subsidiaries will bring meaningful business. However, in short term, we are expecting a modest performance.

We have been moving up the value chain and working relentlessly towards diversifying the business from our core dye stuff and dye intermediate business to other specialty chemical products like Benzene Derivatives. Once we have a decent visibility of demand for our product

portfolio and the new site is stabilized, we will restart our Sulphuric Acid project at the Saykha Greenfield site.

Manufacturers and exporters in India are having a challenging time managing the overhead cost. Over the years, chemical industry has seen a transformation. Long term story of India remains intact. However, we expect overall demand to remain grim for the short period.

Thank you. Now I hand over the call to Mr. Mayur Padhya, who will walk you through the financial performance.

Mayur Padhya:

Good evening, everyone. The overall performance of the Company has been muted for the quarter gone by.

Our “Standalone Performance for Q4 FY23” is as follows:

Total revenue for Q4 FY23 stood at Rs. 393 crore, EBITDA stood at 29.19 crore in Q4 FY23. Net profit for the quarter stood at Rs. 2.11 crore.

Our standalone performance for FY23 is as follows;

total revenue for FY23 stood at 1,563 crore. EBITDA stood at Rs. 129.12 crore in FY23. Net profit for the year stood at 31.14 crore.

Our “Consolidated Performance for Q4 FY23” is as follows:

Total revenue stood at 393.5 crore in Q4 FY23, EBITDA stood at 30.8 crore for Q4 FY23 with a margin of 7.8%. Net profit for the quarter stood at 2.81 crore for the Q4 FY23.

Our consolidated performance for FY23 are as follows;

total revenue stood at 1,586 crore for FY23. This includes export of 69% and domestic sales of 31%.

EBITDA stood at Rs. 144.95 crore in FY23, a degrowth of 38.03%. Net profit for the year stood at Rs. 38.03 crore against 98.66 crore in FY22.

During the year, our subsidiaries Sener Boya and Bodal China has performed satisfactorily. During the year, Sener Boya and Bodal China has reported a total income of 62.28 crore and 29.27 crore respectively and have reported noteworthy profitability.

Performance of the other subsidiaries has been lower than expected due to soft demand.

Segment wise performance on a consolidated basis for the FY23 is as follows:

Dye stuff revenues stood at Rs. 541 crore. Dye intermediate revenue stood at 393 crore. Basic chemicals revenue stood at Rs. 172 crore. Chlor-Alkali revenues stood at 327 crore. TCCA revenues stood at 20.38 crore for FY23.

Total production volume on a consolidated basis for the FY23 are as follows.

Dye stuff reported 13,652 metric tons. Dye intermediates reported 14,779 metric tons. Basic Chemicals stood at 1,97,051 metric tons. Chlor-Alkali and TCCA stood at 89,223 metric tons and 942 metric tons, respectively.

With this, I conclude the presentation and open the floor for further discussion and question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is on the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Sir onto the dye stuff and dye intermediate business, sir when we look at your consolidated volume performance in FY23, that is well below your past 5 years trend like for dye stuff, historically we were operating at 18,000 to around 19,000 metric tons and we had witnessed a good volume jump in FY22, for FY23 it is at around 13,000 tons. So, can we assume for the next 2 years that we'll be back to that original run rate of 18 to 20,000 or now because of that structural demand issues which is there in textiles? So, reaching to that levels would be difficult now from here on?

Ankit Patel: It looks like at the moment, it is definitely difficult to reach those highest levels that we had reached, but I think after couple of quarters the overall demand scenario should be better. So, for the FY24, I think we should be doing better than at least FY23.

Aditya Khetan: And similarly for Dye intermediates also sir?

Ankit Patel: Similar situation is there in dye intermediates also. Currently, there is a lot of pressure and there is a lot of uncertainty from China and from the dye stuff and textile demand. So, that also we feel the same that I think for at least a few months, we don't see any major revival happening. And once the overall global few factors that is disturbing the global trade, I think once they are all back to normal, I think then only overall demand should improve and with that the textile and the dye stuff and the intermediate demand should improve. So, I again don't see much turn around or a revival for at least the next 4 to 6 months in the dye intermediate space.

Aditya Khetan: And sir, in terms of cycle, when we talk about of dye stuff, so for dye intermediate as you mentioned that there is still 4 to 6 months pain is there. So, in terms of cycle, where are we standing now? So, considering your current quarter performance also it seems like we are standing near the bottom or somewhere so down the line only. Is there a chance? Suppose things start to pick up, we can see improvement in numbers also from here on and in terms of cycle I

wanted to understand. So, where are we standing right now, at the bottom or still we are in the middle?

Ankit Patel:

In terms of the cycle, I think we are in a better place now because of two things. One is if you compare the topline of Q3 and Q4, there is definitely a good improvement about 30%. So, that's one thing, so I think the worst is over. I think the worst was maybe Q3 and now the topline is now getting back to about 70%-80% of our top best quarters. And the second point is many and majority of the raw materials have corrected. So, couple of quarters back there were still many raw materials that were high in demand globally. There was a delta between the prices of Chinese raw material and Indian raw materials. So, it was difficult to compete with the Chinese in terms of intermediates. But now most of the raw materials have been corrected. They have come back in the normal range. That is going to add some margins and volumes are already back if I compare to Q3. So, it's definitely now better. In terms of the cycle, we are definitely going upwards now, but we don't see a very fast pace. It will be slow, but definitely there will be some improvement.

Aditya Khetan:

Sir, in your FY23 for full fiscal sir, caustic soda business has been around 21%. Despite like such a high margin business, caustic soda we had clocked a full year margin of 8.5%. So, we were with the belief considering now Bodal is moving into newer segments which are having much higher margins, so that margin range which we were at around 10%-12%, that can shift to around 15%, but despite caustic soda like ramping up to the highest level. Trajectory doesn't seem to be moving towards the higher range. So, what will be that trigger? Now, suppose that Greenfield plant of Saykha that will come on stream. So, that will be a trigger point wherein we can see much improvement in the margin, or we'll be into this range only somewhere around 7% to 10% range.

Ankit Patel:

When you say 21% of the caustic business revenue out of total revenue, the caustic plant was operating on the older technology until November 2022. So, because of the older technology, it was consuming a lot of electricity, that's why the margins were not at par with the industry players, that is one reason. So, it has only got about 4 months of performance. And also, because in November we started, it was not running at optimum levels. That plant is now running at around 80% of the installed capacity and going ahead in next couple of months, it should be operating at more than 95%. Also, there are still 2-3 developments and upgradation that are still happening. So, I think we are yet to see the best performance from the Chlor-Alkali business, I know the price has corrected, but the price is still in a positive margin set. And so, in terms of topline and the margins, I think we should see improvement when it comes to on an annual basis I'm saying when it comes to the Chlor-Alkali business. So, that's one thing. And Benzene Derivatives, yes, like we have been commenting, it is about 15% EBITDA business. So, that is our target to have about 300-400 crores of turnover from the phase one of the Benzene Derivatives, which should start by end of December commence production and start selling the product in the market, so we are going I think Chlor-Alkali after all the improvements and all the utilization of the installed capacity when that happens, which is I think almost about 80% we

have reached for that and the execution of the benzene project, I think that should affect the overall margins and that should help us to improve the overall margins.

Aditya Khetan:

So, going ahead sir, what numbers are you all building in? So, considering if the Benzene Derivatives also that will run at peak utilization level, caustic soda upgradation will happen and dye stuff and dye intermediates business will improve at least from the current level for the next 1 to 2 years. So, can we assume our current margins of 8% to 9%, this can move to around at least 11% to 12% range or higher than that. What is your take on it?

Ankit Patel:

So, when we include the new benzene business on the annual basis and also Chlor-Alkali with all the improvements and upgradations and everything is done, and some improvement that we are expecting in next couple of quarters from the intermediates and dye stuff space, I think put together I think we should be able to reach around 11%-12%. Our ultimate goal is to reach around 13% to 15%. But looking at the dye stuff and dye intermediate business, how it is shaping up now, I think it is going to remain under pressure for some time, but still with the Chlor-Alkali new plant and new capacity and improvements and also the new benzene business, I think we can reach that 11%.

Aditya Khetan:

And sir any reason why we have scrapped that forward integration into the Benzene Derivatives? We were planning to make MPDSA, so now we are making only PNCB and ONCB. Any reason sir why we have scrapped that forward integration?

Ankit Patel:

So, the reason, we were trying to integrate our new Benzene Derivative business with our intermediate and dye stuff business, but meanwhile, while we started executing the project, the prices of steel and cement had gone very high. So, overall projection of the project was resulting in a much higher investment than we anticipated. So, because of that we had to move some of the products in phase two. So, other than MPDSA also, we have another list of five products which integrate very well with the benzene derivatives and also integrates to our existing business. So, we also have environmental clearance for most of them, so that we are quite ready to go ahead with, but when our margins have been corrected in our base business which is intermediates and dye stuff when we see some uncertainty in that business, we don't want to commit too much of an outflow. We don't want to end up with a lot of debt, so that is why time being in last 3-4 quarters, we had decided to hold our Sulphuric Acid project and also this couple of small projects that we did not go ahead with, but they are all ready. So, like I commented earlier in my speech once this site is stabilized and this first phase products are stabilized and an overall Company is doing overall a little better in terms of margins and all, we can immediately start with these products.

Moderator:

Thank you. The next question is on the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

- Aniket Kulkarni:** So, my questions were on basically the Vinyl Sulphone and H-Acid prices. So, you have mentioned the prices, but can you give an idea on how these prices are trending and how the demand is holding up for both of these?
- Ankit Patel:** So, the prices are still in the similar range that they were in Q4. And it's around 425 levels per kg for H-Acid and about 225 for Vinyl Sulphone. And the current demand is definitely there is some pressure. The overall demand that comes from textile, we are seeing a very dull demand coming from the textile space and that is affecting the dye stuff operations and hence the dye intermediate demand is down.
- Aniket Kulkarni:** And the second question regarding the Chinese market, so has China reopening improved in current market conditions and could you explain just how things have shaped up once China has reopened?
- Ankit Patel:** It did not change the overall price trend too much and in fact in June, so next month, there is a forecast that there's going to be millions of COVID cases again in China. So, that is again it's a little scary situation where they are taking it lightly that it's not like old times where they have to really respond but still, I think if the outbreak happens with so many millions of cases, I think that will definitely affect their overall demand, overall trade, overall manufacturing. So, whenever that happens, there is a lot of imbalance that happen. And that affects, their consumptions go down and sometimes they are desperate to sell to Indian markets. In the past such things have happened. There is definitely some uncertainty about Chinese markets right now also. And if you look at last couple of quarters, their GDP has also gone down. So, that is a sign where I think China has also slowed down in my view in last about 6 to 10 months it has slowed down as an economy. So, these are not good signs because US is going through inflated cycle. Europe is also going through, some of the countries are going through recession, inflation and again China, one of the largest economies again showing some decline numbers in terms of GDP. So, overall, I would say, overall, it's not a great time in terms of overall demand for consumer level products. So, I think there is some more time to go till things get better, things revive.
- Moderator:** Thank you. The next question is on the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.
- Aditya Khetan:** Sir, onto the Chinese economy slowing, so considering if their economy is slowing but the production levels, I believe they are still on to the higher side only. So, are you witnessing any sort of increase imports in dye intermediates from China to India, and that is also putting some pressure on to the Vinyl Sulphone prices due to which the market is not performing. Is there any such idea on this front?
- Ankit Patel:** No, that was happening 3-4 months back, but last, I would say about 45 to 60 days, there has not been much of import pressure coming, the product coming from China. So, even the prices they are quoting are much higher than what they were quoting 3-4 months ago. So, today, I think

China's position in terms of H-Acid or Vinyl Sulphone or intermediate stocks to be sold is I think they're very comfortable. When I say that the economy is slowing down, where the dye stuff or the textile space is very small, it's probably not even 5% of the total GDP. So, what I commented was, that overall GDP has come down around 5%. So, that is just a sign of slow things slowing down. But I think currently lasts about a month, there's definitely not much import products from China available for Indian markets.

Aditya Khetan: Any other countries from where we have witnessed increase in imports this particularly?

Ankit Patel: Import of what products?

Aditya Khetan: Import of dye intermediates and dye stuff.

Ankit Patel: No, there are no other countries where dye intermediates are produced. They are only produced in India and China. Dye stuff are produced in some other countries also, but majority it's done in India and China. So, there are no imports. There are some established companies, which are Taiwan and South Korea based in dye stuff space. So, they do sell some product to countries like India and Bangladesh and Vietnam and all that. But they don't have a significant share of the market.

Aditya Khetan: As you have mentioned, so the Chinese players have also increased the prices, so we would be also revising our contract upwards only. So, that would be reflected from the coming quarter, right.

Ankit Patel: Yes. So, the prices have not have not been falling for like last 2-3 months now. There has been some demand, that is why I think the prices stopped falling further. Though there is some correction in the raw materials, still the prices are going down. So, yes, like you said, yes, the current orders, current contracts are definitely happening at the current levels, which have not been going down in last few months. So, with some of the raw materials going down, we are hoping definitely for better margins than Q4.

Aditya Khetan: And sir, onto the CAPEX guidance for the Greenfield Saykha plant, what was the CAPEX figure we have outlined?

Mayur Padhya: Saykha as we have mentioned in the revised projection also, so total 390 crore we are going to spend for benzene downstream and our soft cost as well as infrastructure cost. At the same time, we have already spent about 64 crores for Sulphuric Acid. So, putting apart from Sulphuric Acid, about 390 crore we are going to spend in Saykha. Out of that, about 250 crore is to be spent in current year. And balance, we have already spent by 31st March.

Aditya Khetan: 240 crores is there, so our guidance is to complete the project by September or by December. So, that 250 crore would completely be incurred during the next 6, 7, 8 months?

Mayur Padhya: Yes, by September that will be incurred.

Aditya Khetan: And sir, onto the debt levels like what levels of debt we are seeing for FY24?

Mayur Padhya: See, present our total debt is 755 crore in March 23 balance sheet and another about 200 crore we will add. At the same time, some repayment will also start from current year. So, net, we are expecting about 150 crore will further get added to this level. So, next year end we will be in the range of about 900 to 950 crore. This is the broader range where we will have our total debt including working capital.

Aditya Khetan: 950.

Mayur Padhya: Yes. So, that will be of debt equity of 0.8 and that's a decent one for our size Company.

Moderator: As there are no further questions, I now hand the conference over to Mr. Ankit Patel for his closing comments.

Ankit Patel: With this, we conclude the call and would like to thank everyone for joining us today on this earning call. If you have any further queries, you can connect to us anytime. Thank you and have a nice evening.

Mayur Padhya: Thank you.

Moderator: Thank you members of the Management Team. Ladies and gentlemen, on behalf of Bodal Chemicals Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.