



“Bodal Chemicals Limited Q1 FY24 Earnings Conference Call”

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**MANAGEMENT: MR. MAYUR PADHYA – CHIEF FINANCIAL OFFICER,
BODAL CHEMICALS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Bodal Chemicals Limited Q1 FY24 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. If 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. Mayur Padhya – Chief Financial Officer, Bodal Chemicals Limited. Thank you and over to you, sir.

Mayur Padhya: Thank you very much, ma’am. Good evening, everybody. On behalf of Bodal Chemicals Limited, I extend a very warm welcome to everyone for joining us on today’s call. I’m Mayur Padhya, CFO of the Company. 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'll give you a quick overview of the recent developments in the chemical industry and then we'll walk through the operational and financial performance for Q1 FY24. Inflation in major economies continued to be higher level than the normal leading to lower purchasing power with the mass, which results in lower consumption at end user industry and lower demand for our industry. Uncertainty for end of war between Russia and Ukraine further decelerated demand scenario for chemical industry. Inventory correction and slow export for textile, leather and paper leading to subdued performance of dye stuff over the last few quarters. The two major markets, the United States and the European market have been slow for more than a year now, owing to multiple headwinds from rising inflation to uncertain geopolitical scenario. Slowdown in China impacting the domestic demand in China, resulting in excess volume originating from China. At the world level, most aggressive interest rates hike causing inflation condition to tighten and necessary trend continue impacting demand adversely. Industry expects this weakness to continue in the short run and gradual recovery is expected from second half of FY24.

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 partner globally, we have been able to hold our leadership position.

Coming straight to operational performance: Overall business performance for Q1 FY24 has been weak as the Company's total revenue stood at Rs. 341 crore, a degrowth of 26.9% due to decline in prices of raw material as well as finished good and margin diminution is on account of decline in overall demand. The sluggish demand of end use industry, which has impacted better volume and selling prices, which is not allowing industry player to pass on the increasing input cost to end customers

Coming to dye intermediates, at present, dye intermediates like H-acid and Vinyl Sulphone pricing has been at lower level, putting strain on industry players. For Q1 FY24, total revenue from dye intermediates stood at Rs. 93 crores. H-Acid and Vinyl Sulphone prices were near Rs. 426 and Rs. 230 per kilogram in Q1 FY24 respectively. Being an integrated dye stuff manufacturer, we produce major dye intermediate products and over 40% of this intermediates capacity is captively consumed, resulting in a cost advantage for our dye stuff products. The balanced capacity of dye intermediate is served in both domestic as well as global market. Many dye intermediate manufacturers in India are still under pressure due to slow demand. Industry expects this weakness to continue in short term and gradual recovery may be expected from second half of Q4 24.

Coming to our dye stuff: End application industries like textile, leather, paper and other dye stuff consuming industries have not performed 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 Q1 FY24 stood at Rs. 115 crore.

Coming to basic chemicals, about 50% of our basic chemical is captively used for dye intermediates. Our overall basic chemicals contributed around 35 crores in Q1 FY24. Coming to Chlor-Alkali business, post upgradation CAPEX in Q1 FY24, the Chlor-Alkali business has performed reasonably well in terms of production, achieved 90% growth in volume year-on-year basis. However, due to adverse market condition of Chlor-Alkali industry, revenue stood at Rs. 70 crores and reported degrowth by 22%, leading to a substantial reduction in price in both domestic and international market. Recessionary trend continue impacting demand. This factor continued to affect sentiments and therefore prices also.

Coming to benzene derivatives: As highlighted in earlier call also, our main goal is to replace import and capture business in the pharma, chemical and agrochemical market where PNCB and ONCB are used. We are installing the capacity of 63,000 metric ton per annum for benzene derivatives. Saykha Greenfield project is progressing well and is expected to start a trial run from Q3 FY24. 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 decent visibility of demand for our product portfolio and new business site is stabilized, we will restart the Sulphuric Acid project. While the global growth and demand is impacted, growth momentum in India is strong. We will expect Chlor-Alkali business will contribute meaningful business in the coming years on back of technology upgradation.

We foresee demand for caustic soda to remain healthy from FMCG, textile and paper industry. Since very few players have a presence in North India, we will have a competitive edge to a certain extent. Manufacturer and exporter in India are having a challenging time managing the overhead cost. Over the year, chemical industry has seen a transformation. Management is taking measures in terms of scale, cost and integration that will help to sail through in this tough time.

The overall performance of the Company has been subdued for the quarter gone by. Our standalone performance for Q1 FY24 is as follows: Total revenue for Q1 FY24 stood at Rs. 329.40 crores. EBITDA stood at Rs. 27.23 crore. Net profit for the quarter stood at Rs. 1.07 crore. Our consolidated performance for Q1 FY24 is as follows: Total revenue stood at Rs. 341.27 crore for Q1 FY24, EBITDA stood at Rs. 30.98 crore with a margin of Rs. 9.1 crore. Net profit for the quarter stood at Rs. 2.21 crore for Q1 FY24.

Performance of the key subsidiaries was subdued, except for Sener Boya. In recent current unfavorable scenario and even after recent earthquake in Turkey, Sener Boya has performed well. It has reported a total income of Rs. 11 crore and reported a profit of Rs. 1.19 crore. Performance of other subsidiaries has been lower than expected due to soft demand. In a medium to long term view, this subsidiary will bring meaningful business; however, in short run, we are expecting a modest performance.

Segment-wise performance on consolidated basis for Q1 FY24 are as follows: Dye stuff of revenue stood at Rs. 115 crore, dye intermediate at Rs. 93 crore, basic chemical Rs. 35 crore, Chlor-Alkali stood at Rs. 70 crore. Total production volume on a standalone basis for Q1 FY24 are as follows: Dye stuff reported 3,473 metric ton of production. Dye intermediates reported 4,802 metric ton, basic chemical stood at 56,650 metric ton and Chlor-Alkali caustic soda production stood at 19,506 metric ton.

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 AK Capital. Please go ahead.

Aditya Khetan:

Sir, my first question was when you say that demand is remaining subdued, but, sir, when we look at your quarter-on-quarter volumes like dye stuff have reported 25% jump on quarter-on-quarter basis. Even dye intermediates volumes have been almost flattish. So, despite subdued demand, your volumes are picking up. So, I understand you're talking onto the price because China is aggressively dumping into India. So, that could impact the price, but your volumes are picking up. So, how should one look at these numbers then?

Mayur Padhya:

See, whatever you have pointed out is correct, particularly Q1 FY23 and Q1 FY24, when we compare, in Q1 FY23, we had a good orders on hand with good prices. So, during the corresponding last year's quarter, industry has started performing weak, but because of the good sales price, we have done better in that particular quarter. So, when we compare the revenue figure from Q1 FY23 to Q1 FY24, the prices has been down, but volumes as you have mentioned has picked up for production. The data what we have shared is of production data and not of a sales quantity. So, during Q1 FY23, there was a better sales number as well as sales price. That's

why when we compare it with Q1 FY24, it looks like that revenue is down and volume wise there is somewhat better we have done as far as production is concerned.

Aditya Khetan:

Sir, when I say that 25% jump in your dye stuffs volumes, but your dye intermediate volumes have not gone up. So, what we understand that dye intermediate is used to make dye stuffs. So, when your raw material is remaining flattish, how come your finished product like volumes have been jumped at a higher pace?

Mayur Padhya:

It is very much possible, so it's not that whatever we produce that much is only utilized. There is an older stock as well as some portion we are required to get from outside. So, it is very much possible that we have used our inventory more in a captive consumption than what we have sold to outsiders. So, this is a production number, so a major portion has been used for captive consumption and sales numbers are lower.

Aditya Khetan:

And sir, onto the Vinyl Sulphone and H-Acid, China is the largest player into these segments and they are aggressively dumping into India. So, now prices are at again, they are at a two- to three-year low. So, how you see these things to this can improve materially from here on or you see this to remain at these levels only for a couple of quarters and also sir, if you can share the import figures if you have of H-Acid and Vinyl Sulphone. Any ballpark number, if you can give on that?

Mayur Padhya:

When we compare H-Acid and Vinyl Sulphone with China, for Vinyl Sulphone, Indian capacity and Chinese capacity are more or less similar. But in H-Acid, China's capacity is much higher than India's capacity and China's dumping was there earlier, before about 6 months or so, when prices of basic chemicals were at higher level in India, but they were at lower level in China. So, their cost of production before 6 months was much lower than Indian manufacturers cost of production and hence they were able to dump. But presently some consignments are coming, but not in a big number. I don't have the import data, but present cost of production for both the countries is more or less similar. So, prices of basic chemicals like sulphur, caustic, aniline oil, which were at very higher level before about 6 to 9 months, now they have corrected and price is over there and in India are more or less same. So, the cost of production is also similar. So, there is now a level playing field and we are not expecting much dumping as far as these products are concerned in India. Another thing, when Bodal has performed more or less similar compared to last two quarters is because of somewhat betterment has happened in dye intermediate and dye stuff space. Other segment like Chlor-Alkali has performed well earlier, but during this quarter, prices were very low. So, that sector had not performed well, but because dye intermediate and dye stuff has performed little bit better compared to earlier where we have been making some losses, we could do better and what we are expecting that this scenario may remain at least 2-3 months and after that every industry player are now hoping that from second half of current year, some gradual improvement should be there.

Aditya Khetan:

Sir, any guidance on full year margins, EBITDA margins for FY24?

Mayur Padhya:

It's difficult to say, but we can say the second quarter will be also under pressure. But from third and fourth quarter, how much improvement takes place on that basis we can so. So, minimum from this, 4x we can definitely consider. But somewhat better will definitely happen in Q3 and Q4. That is what we are expecting. At the same time, there will be some internal things what we are working that will boost in Q3 and Q4. They are like what I have mentioned in our speech also that we are working on some scale and other things like we have 12 units manufacturing sites. Out of this, 5-6 sites are very important and balance sites like 4 sites in Ahmedabad, another two small sites in Padra, they are profitable when we have a full-fledged demand. But since last one year and so, demand is under pressure. So, operating all these sites is not a meaningful decision for the Company. So, we are considering closing some of the sites and we are considering to stop production wherever the overhead cost is very high, but we are not generating much of the margin. So, that study internally we are doing and maybe some fruit we will be getting from say next quarter or so. So, by that, we will be able to save handsome, it can be up to 2 crore of overhead reduction every month. So, we are internally working and at the same time we are eligible for some incentive at Punjab so that we have applied, but we have yet not got and that we have not yet considered in our income. So, that incentive itself is in the range of about 18 crore to 20 crore per annum and we are eligible from November 22. So, that also we will get in a quarter one or two from now. So, these are the 2-3 areas which will definitely impact the Company's profitability even if the outer parameters remain same. At the same time, we are expecting some improvement in the outer parameter, but internally we are working and that will give a positive result in Q3 and Q4 to some extent.

Aditya Khetan:

And just one last question from my side. Sir, when we look at the number, so in this quarter, there was a very big jump into the gross margins, like none of the chemical companies in this quarter have reported such steep jump in gross margins, which you have reported. So, I was very curious to know what is the reason like because all the raw materials I believe so, considering this subdued demand also, you should have also felt the pain, but your gross margins are higher and what is the reason for higher other expense also like it is upwards of around 10 crore to 15 crore in this quarter, so?

Mayur Padhya:

See for the Company as I mentioned, we are into various sectors and some prices of basic chemicals that has come down. So, we were able to source some of the raw materials like Sulphur, which is the main raw material for Sulphuric Acid. We have done some agreements with like Reliance Industries, so we are able to source some of the product at a cheaper price compared to what other industry players could have sourced. So, that has contributed to a big way for the Company. And that is where we could do better in terms of dye intermediate and dye stuff. If Chlor-Alkali business has done similar to the earlier quarter, our numbers would have been much better than what we have shown in this quarter. So, this is the answer for your first question and for other expense things, see, it's a very big area. It includes many heads. So, to comment upfront is difficult for me. So, we can connect separately to understand things.

Moderator: Thank you. Sir, we do not have any more questions from the participants. Sir, would you like to add any closing remarks?

Mayur Padhya: No, nothing much. As I mentioned, time is tough for the Company, for the industry, but what we have seen in this long journey of 30 plus years that such time remains there for one or two years, but then automatic demand comes up. So, presently, the all pipeline of the stock for our end use industry is more or less empty. So, whenever some demand starts coming from a developed market, then immediately good results will be there as far as demand is concerned, and that will definitely help the Company to do better. Yes, this is what I would like to say and thank you very much for joining our call and we conclude the call and would like to thank everyone and anyone's question if remain unanswered or couldn't ask, they can connect us separately. 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.