



“Bodal Chemicals Limited Q3 & 9 Month of FY24 Earnings Conference Call”

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**MANAGEMENT: MR. ANKIT S. PATEL, EXECUTIVE DIRECTOR, BODAL
CHEMICALS LIMITED
MR. MAYUR PADHYA - CFO, BODAL CHEMICALS
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Bodal Chemicals Limited Q3 & 9 month of 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. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touch down phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit S. Patel. Thank you and over to you, Mr. Patel.

Ankit S. Patel: Thank you very much. Good evening, everybody.

On behalf of Bodal Chemicals Ltd., 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 exchanges and our company's website. We will give you a “Quick Overview” of the “Recent Developments” in the chemical industry and on our company. And then Mr. Padhya will take you through the financial performance for the quarter.

As per the industry highlights, inflation in major economies continues to be at a higher level than normal leading to lower purchasing power with mass which results in lower consumption at end user industries and lower demand for our industry. Certainly, for end of uncertainty about the end of the war between Russia and Ukraine further de-accelerated the demand scenario of chemical industry. The two major markets, the United States and the Europe have been slow due to multiple headwinds from rising inflation to uncertain geopolitical scenarios. Slowdown in China impacting the domestic demand in China, resulting in excess volumes originating from China. Most aggressive interest rate in the US are causing financial conditions to tighten, and recessionary trends continue impacting the demand. Industry expects a gradual but slow recovery from here. As per the company overview, in today's environment where Indian suppliers are emerging as preferred partners globally, we have been able to leverage our leadership position. We are the India's largest integrated manufacturer of Dye Stuff and die intermediates and hold a meaningful market share in the world.

Coming to the “Operational Performance,” during Q3 FY24:

Revenue grew by 6% due to overall quantity gain, but margin remained constant. Though there was about a one-month annual shutdown of sulphur products division during the quarter for boiler inspection etc. the company has achieved 3% growth on a quarter-on-quarter basis. In revenue from operation is due to marginal improvement in demand for the quarter. This gives confidence that the worst is over.

During the 9 months FY24 turnover is lower due to lower prices of raw material. as well as finished goods. Total revenue of 9-month FY24 stood at Rs. 1,020 crores, a degrowth of 14% on a year-on-year basis.

Coming to the “Dye Intermediate” business:

On the positive side, in the nine-month FY24, total revenue from dye intermediate stood at Rs. 307 crores, as reported growth of 19% on yearly basis, mainly on account of improved volume.

H-Acid and Vinyl Sulphone prices were near 435 for H-Acid and 224 for Vinyl Sulphone in Q3 FY24. Volume has improved. However, margins are still under pressure due to lower realizations. More than 40% of our intermediate products are used for the captive purpose to manufacture various ranges of Dye Stuff. Over the next few years, revenue pie from this vertical will eventually go down and business from Dye Stuff will increase in favor of steady business growth.

Coming to our “Dye Stuffs”:

A 10% improvement in quantity produced in Dye Stuff on a quarter-on-quarter basis is due to some improvement in the demand. Revenue contribution from Dye Stuff stood at Rs. 352 crores for the 9-month FY24. It is a degrowth of 20% on a year-on-year basis. End application industries like textiles, leather, paper, and other Dye Stuff consuming industries have not performed well during the last few quarters. Coming to our basic chemicals division, about 50% of our basic chemicals are captively used for dye intermediates. In this division, there was about a one-month annual shutdown of sulfur products division during the quarter for volume inspection etc. The company has achieved volume growth of 9% on a year-on-year basis and revenues stood at Rs. 87 crores.

Coming to “Chlor-Alkali” business:

Post-upgradation CAPEX, the Chlor-Alkali business has performed reasonably well in terms of production, achieved 25% growth in volume in nine months of FY24 compared to the previous year. However, due to adverse market condition of caustic chlorine industry, revenues stood at 201 crores and have reported a deep growth of 18% for the nine months. This is new to a substantial reduction in price, both domestic and in international markets.

Coming to the “Benzene Derivatives”:

As highlighted in the earlier call, our main goal is to replace imports and capture business in the pharma and agrochemical markets. Currently, it is a bit slow in those spaces where PNCB and ONCB are consumed. Recently, on 29 December 2023, the company has successfully commenced the production of benzene downstream products at Saykha Gujarat.

This plant will generate further growth in revenue from diversified products portfolio with its installed capacity of 63,000 tons per annum. This being a specialty chemical will take time to stabilize and we do not expect meaningful contribution from it in the current year. The company from next year onwards expecting optimum capacity utilization and anticipating additional revenue of around Rs. 320 crores on gradual basis.

In spite of global headwinds in the chemical industry, all foreign subsidiaries have contributed some profit during the quarter. In a medium to long-term view, these subsidiaries will bring meaningful business. However, in the 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. We foresee demand for Caustic Soda, to remain healthy from FMCG, textile and paper industries. Since very few players have a presence in North India, we have a competitive edge to a certain extent. Manufacturers and exporters in India are having a challenging time managing the overhead cost. Over the years, the chemical industry has seen a transformation. Management is taking measures in terms of scale, cost, integration and cost cutting that will help sail through this tough time.

Thank you. And now I hand over the call to Mr. Mayur Padhya to 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 Q3 FY24 is as follows:

Total revenue for Q3 FY24 stood at Rs. 342 crores, EBITDA stood at Rs. 28 crores in Q3 FY24. Net profit for the quarter stood at Rs. 72 lakhs. Our standalone performance for 9 months FY24 is as follows. Total revenue for the 9-month FY24 stood at Rs. 1,005 crores. EBITDA stood at Rs. 84 crores. Net profit for the quarter stood at Rs. 3 crores. Our consolidated performance for Q3 FY24 is as follows. Total revenue stood at Rs. 343 crores. EBITDA stood at Rs. 29 crores with a margin of Rs. 8.3 crore. Net profit for the quarter stood at Rs. 98 lakhs for Q3 FY24. Our consolidated performance for the 9-month FY24 are as follows. Total revenue stood at Rs. 1,020 crores for 9-month FY24 against Rs. 1,192 crore 9-month FY23. This includes exports of 29% and domestic sales of 71%. EBITDA stood at Rs. 89 crores in the 9-month FY24, a degrowth of 22%. Net profit for the 9-month FY24 stood at Rs. 4.4 crores against Rs. 35 crores for 9-month FY23.

Division-wise performance on consolidated basis:

For the 9-month FY24 are as follows:

Dye Stuff revenue stood at Rs. 353 crores. Dye intermediate revenue stood at Rs. 307 crores. Basic chemical revenue stood at Rs. 87 crores. Chlor-Alkali revenue stood at Rs. 201 crores.

Total production volume on standalone basis for 9-month FY24 are as follows:

Dye Stuff reported 10,545 metric tons. Dye intermediate reported 16,009 metric tons. Basic chemicals stood at 153,295 metric tons. Chlor-Alkali stood at 58,910 metric tons.

With this, I conclude the presentation and open the floor for further discussion as well as questions and answers.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan:

Just a couple of questions. Regarding the Caustic Soda business, we had reported a decent volume growth on a quarter-on-quarter basis. But sir, why is it that prices of Caustic Soda like, what is the price band like currently Caustic Soda it is consolidating at the lower end? And why this growth in volume isn't translating into bottom line growth?

Ankit S. Patel:

So, compared to last year or last few quarters, Caustic Soda prices are at almost two years bottom I would say. And since last eight months the ECU realizations have been lower than the previous few quarters. So, meanwhile, when the prices increased a couple of times in last two years, the reasons were there were shortages in the international market, mainly due to gas cut to Europe from Russia and all. So, there were some imbalances in the global trade of Caustic Soda. And that resulted in some extraordinary demand and a price increase in Caustic Soda. But now, since the last eight months, the markets have been quite flat, and the realizations also have been quite flat. So, we are operating at almost 80% utilization, we still have room to improve to about 90% to 94% utilization. That should happen in the next three to four months. So, going ahead, even at these basic normal prices, our margins can still be a little better. And it is a cyclical commodity, so whenever the prices are good, we are going to benefit in good numbers.

Aditya Khetan:

We all know that all the Caustic Soda units are generally situated in Gujarat only because of the availability of salt. So, seeing the freight cost is also like, across the country it is going up. So, transporting salt from Gujarat to your place in Punjab, is that also like eating up the margin for Caustic Soda?

Ankit S. Patel:

No, actually speaking, our Caustic Soda business is doing better than even some of the competitors here in Gujarat. The reason is that it is a regional business, so no Gujarat supplier, manufacturer is selling to UP or NCR or Punjab or Haryana area, not a single kg. We started this business, acquired this business now almost three years back and there has not been a single kg that was supplied from Gujarat to that area, to our customers. And that same way, we don't supply all the way down to Gujarat because the freight is very high. The product cost is around Rs. 30-35 per kg, where the freight is around Rs. 5 per kg. So, because it is a big cost, it is not

viable. So, traditionally, even in our observation in the last 3 years, yes, you are right that salt in Gujarat is around Rs. 1.5 to Rs. 1.75 per kg where the same salt we take it by rack in a train. So, it is costing us around Rs. 3. So, it is higher. But again, the finished goods prices of Caustic Soda is also higher by minimum Rs. 2 to Rs. 3 on an average because it is not only us, but it is also three more plants. In fact, four more plants. There is one plant in UP of Grasim Industries. There is another plant in Punjab, another plant in northern Rajasthan and another plant in central Rajasthan. These all five plants catered to the North Indian market. So, I would say that the margins are similar to the Gujarat players, I would say.

Aditya Khetan:

So, sir, this Caustic Soda price, so like any trend like if you would like to share, so prices have bottomed out or there is a chance that it might go up for like for the next six months again, we are witnessing stable prices only at these levels.

Ankit S. Patel:

Going ahead, there are no signs of any great time to come, I feel, at least for the next two, three months. There are no signs of any extraordinary demand that can come globally, which can end in a higher demand of Caustic Soda overall. And because it's mostly catering to the domestic demand, all Indian players, 20% goes into textile, about 20% in alumina and then agrochemicals, pharmaceuticals, chemicals, and some miscellaneous industries. So, overall, there are also some imports. So, in the Western region, especially in Mumbai, for the last two, three months we have been observing regular import studies coming from the Middle East. So, that is another problem, whenever there is a little room to increase the prices in Gujarat area up to 35, 37 levels, there is an import that comes in at around 33, 34 levels. So, that has been happening again since two, three months. So, I think the global slowdown is affecting and I think going ahead, it will remain flat.

Aditya Khetan:

Onto the Dye Stuff side, sir, already the industry is not in a very good shape, plus sir, when we look at the competitors, like one of the competitors, so that is Shree Pushkar, they are also expanding into the Dye Stuff side, like they're setting up some new Greenfield part manufacturing some of the Dye Stuff. So, like anyways, the industry is not performing plus the cooperative intensity is set to go up. So, what is the strategy of Bodal, like, how will we counter this?

Ankit S. Patel:

Shree Pushkar has been present in Dye Stuff since I think more than five years now and they may be setting up more capacities. But if I talk about the Dyestuff industry from India, there are many players. It's not a very limited number of players. And we as most integrated, we definitely have the edge of the lowest cost. And us being present since now 20 years, we also have a great customer base. And all these subsidiaries are also supporting us, Turkey and China and Indonesia. So, we do have a very strong model, a very strong product basket. Also, we are taking within the organization some measures where we can cut down on the cost. Originally, we have, including our older units, we have many smaller units which we have, strategically we have increased capacities in the bigger units, and we are planning to stop some of the older units,

which is already bringing our cost down. So, to tackle this slowdown in overall business, we are working on cost-cutting measures, and it is already yielding good results for us.

Aditya Khetan:

But sir, when we look at the performance, the performance for the last eight to 12 quarters is continuously, I think, going down. Even from the margin side, like some 10%-11% margins for the last two years, now it is at 7%. And onto the bottom line, so like the net profit, sir, we were earlier making, at least around Rs. 20 crores-Rs. 30 crores of profit. Now, sir, we are standing at only Rs. 1 crore-Rs. 2 crores, sir. Sir, being the largest integrated manufacturing company present into wide spectrum of end user industry, sir, like the performance is deteriorating on a like on quarter-on-quarter basis. Any sense that you would like to give how things will change from here on?

Ankit S. Patel:

So, the last six quarters have definitely been affected in a major way. Yes, you are right, the margins have come down from 12% to 7% odd. Net profit margins have come down to around Rs. 1 crore - Rs. 2 crores - 3 Rs. crore quarter. You are right. So, like I said, Ukraine war, even again the tensions in the Israel area, the post-COVID de-stocking issue, there are many reasons that affected us. Also, Chinese imports a few months back were very aggressive in the intermediate space. Caustic industry has been volatile. So, there are many reasons why we have gone through this. But the encouraging sign for us is that our volumes are back. We feel that the de-stocking, which especially matters in the international part of the business that we do de-stocking, has really been happening last 4 to 5 quarters. And now I think the international normal pipeline volumes are there in the international pipelines of supply. And I think that should result in some improved volumes. That should result in some better demand in the last 6 quarters. We have already been observing this. I think our December and January numbers are definitely better than the previous 10 months to 15 months. So, it is definitely showing in the volumes part. Another reason that hit us badly was because of Ukraine war, many of the basic chemicals, petrochemicals prices were increased a lot. When that happened, most of our raw materials prices were increased and we went through that phase for more than, I would say 10-12 months. So, now most of the raw materials have been bottomed out. Most of the raw materials today are in the lower range. So, that is also supporting us well. The volumes are supporting us well. Yes, the demand is not the best. We don't see the demand coming in a very aggressive way anytime soon, but it is at least better than the last few quarters. And also, this new diversified benzene derivatives business that is starting for us, we are also hoping to add more top and bottom line from there as well.

Aditya Khetan:

Sir, just one last question. On to that Punjab unit incentives, so when that will start to flow from which quarter?

Ankit S. Patel:

It is not certain, but we are expecting from next quarter, it should be available to us. But since it's a government matter, we can't claim confidently. But yes, the process has gone to reasonably conclusive level.

Aditya Khetan: And sir, what would be that quantum per quarter? Per quarter it can be Rs. 5 crores to Rs. 6 crore and earlier period rather from the period when we started the production that is November 22 to till date about Rs. 20 crores to Rs. 22 crores has already been accrued that we have not yet accounted for in our books. So, that will also be available.

Moderator: Thank you. Next question is from the line of Anupam Jain, who is a professional investor. Please go ahead.

Anupam Jain: What is the weighted average cost of debt you have?

Ankit S. Patel: Weighted average date cost presently is about 8.5%.

Anupam Jain: And incrementally, whenever this renewal happens, is it expected to happen at this rate only or is it likely to inch up?

Ankit S. Patel: It can jump by 0.5% because of the rating downgrade, but not more than that.

Anupam Jain: When you're expecting a renewal of this, almost?

Ankit S. Patel: Renewal is at different levels for different banks. So, over a period of say 6 months, it can increase to 9% to 9.5%

Anupam Jain: So, 50 to 100 basis point almost, depending?

Ankit S. Patel: Yes.

Anupam Jain: This is like in the short term and the long term both there.

Ankit S. Patel: Correct.

Anupam Jain: And what is the gross debt and net debt that we have currently?

Ankit S. Patel: Currently, Rs. 550 crore is our term debt. About Rs. 325 crore is short-term working capital debt.

Anupam Jain: Rs. 850 something crore.

Ankit S. Patel: Correct

Anupam Jain: That is net, inclusive of all the cash and everything that we have.

Ankit S. Patel: Net will be about Rs. 800 crores.

Anupam Jain: Are we looking for any non-core sale assets to do, to reduce this debt currently?

Ankit S. Patel: Yes, we are reviewing but looking at the present scenario of chemical industry, we are not certain by when we will be able to realize that. So, there are certain assets we have identified but by when it will realize it is difficult to say at present.

Anupam Jain: Okay, so can I get the details of the actual and the quantum of it?

Ankit S. Patel: We have certain assets in Vatva, Ahmedabad. Valuation can be around 100 crores. And as such there is no longer the future of this industry in this area because nearby residents have already come. So, that is available for us to sell.

Anupam Jain: So, it is a land with a factory in Ahmedabad?

Ankit S. Patel: Yes.

Anupam Jain: And secondly, if you look at what you are saying that we are going to have a revenue of Rs. 330 crores more as you guided in your commentary earlier.

Ankit S. Patel: Correct.

Anupam Jain: Next year, so we did almost a CAPEX of Rs. 200 crore and we are projecting a CAPEX of Rs. 390 crores more, next year only.

Ankit S. Patel: Next year there won't be any CAPEX. So, whatever capex that we will conclude in current year itself.

Anupam Jain: So, for benzene we will conclude this year only. That's what you are trying to say, for Rs. 390 crores?

Ankit S. Patel: Yes, the total will be completed within this year only. Most of the CAPEX has already been done. Some of the payments are yet to be made. That is in the tune of about Rs. 30 crores. Not more than that.

Anupam Jain: Okay. The last question will be from what can we hereon expect any margin from in benzene side? On the Rs. 330 crores, I am hoping that you will say that we will get revenue from this category, not from the price hike or volume index in the existing business?

Ankit S. Patel: Yes, from benzene we are expecting Rs. 320 crores of revenue at the optimum level of utilization and margin can be in the range of 12% to 15%.

Anupam Jain: 12% to 15% EBITDA margin.

Ankit S. Patel: EBITDA margin.

- Moderator:** Thank you. We have our next follow up question from the line of Aditya Khetan from SMIFS Institutional Equities. Please proceed.
- Aditya Khetan:** Sir, on to the benzene derivative. So, when will we reach the peak utilization, by next year or in two years' time frame?
- Mayur Padhya:** To reach the peak utilization, I feel another three to four months we should be able to reach that level.
- Ankit S. Patel:** We've already started the plans because there are international technologies and there's a lot of integration between all the plans. So, it is taking us, we are slowly improving the utilization. So, from starting of next year...
- Aditya Khetan:** Three, four months only we can ramp up.
- Mayur Padhya:** In 3 months-4 months you can reach about 50% to 70% level and maybe going ahead, if everything goes well, then following a couple of months we can reach 80 plus levels.
- Aditya Khetan:** Okay, and sir this benzene derivative like would account also roughly around 25% to 30% of your overall top line when it reaches that peak utilization level. And since you're saying that the margins are better compared to your traditional business. So, like what sort of margin trajectory you are seeing from the current levels of 7% to 8%. Can we move towards like 10% to 12% band of margin range going ahead?
- Ankit S. Patel:** So, from our current 7%-8% level in another around Rs. 40 crores of EBITDA can be added. So, that can take it up to around 10% plus. But again, these 7%-8% levels that we have been performing since last few quarters, that is looking at last few years, that is the lowest that we have done. So, I think going ahead, I don't think that our existing business will do 7-8% on a consistent basis. It will also have some improvement at the same time as the new business will be added in the benzene form. So, that is the whole idea to you know earlier we were doing about 11%-12% consistently so the idea was to add traditionally higher EBITDA businesses and you know and I had to increase overall EBITDA to about 15% levels. But looking at today, because the businesses are slow I think you know our immediate target is to take it up to around 12%-13% levels for the whole company.
- Aditya Khetan:** Okay, since you are done with the CAPEX, so for the next two years, the pre-cash flow would be used for paying off the debt or we would be planning more expansion going ahead?
- Mayur Padhya:** We are planning, we are not planning any expansions as of now, until the overall business performance doesn't improve, we are definitely not going to do any CAPEX. So, all the cash flows that will be generated would definitely be going towards repaying the debt.
- Aditya Khetan:** So, what is the debt position we see by FY26?

- Mayur Padhya:** By FY26, our term debt will reach to about Rs. 350 crore and working capital will remain more or less in the current level of about 300 to 350 level.
- Aditya Khetan:** When we look at the textile sector, I believe the cotton prices are declining. And most of the commentaries from the textile companies have been good or encouraging. So, they are also stating the revival of demand and also like some of the chemical companies also who are using dyes as a raw material, they are also stating that the demand is going up or they are supplying to some of the dye's players. But our numbers are not witnessing that pickup in demand yet.
- Ankit S. Patel:** One of the reasons why our numbers are not better is, see earlier we have been operating total 12 units. So, when demand was better, the total units were operating. But when demand is low, most of the small units are not making profit. So, there is a fixed overhead burden for the company which eats up the margin which is available for the company. So, that's why we are gradually putting closer on smaller units and saving on the fixed overhead that we have been incurring till date. So, whatever correction is required, that we are taking. So, gradually, that will be available. And that will also add to the margin as well as bottom line. So, fixed overhead, which is playing, a crucial role when company is operating at full level and the utilization is at lesser level. You can understand better, I think.
- Moderator:** Thank you. We have our next follow up question from the line of Anupam Jain, professional investor. Please proceed.
- Anupam Jain:** Sir, you mentioned the Rs. 100 crores that is the land value or it is with factory value that is in Ahmedabad that you mentioned?
- Ankit S. Patel:** It is including all. Land, building, plant machinery, including all.
- Anupam Jain:** And what will be the land value?
- Ankit S. Patel:** It can be about Rs. 60 crores to Rs. 70 crores.
- Anupam Jain:** That will be a major part of that, okay.
- Ankit S. Patel:** Yes.
- Anupam Jain:** And we hope this deal to be completed in one and a one and a half years, I think so, in one year or 1.5 years almost?
- Ankit S. Patel:** Yes
- Anupam Jain:** And this will be utilized towards debt repayment, mostly.
- Ankit S. Patel:** Yes, correct.

- Anupam Jain:** And secondly, you said FY26 number. I couldn't catch that number exactly. Was it Rs. 600 crores or Rs. 700 crores? I couldn't catch it. Rs. 350 crore we said on term loan and Rs. 300 crores.
- Mayur Padhya:** Similar. Rs. 300 crores to Rs. 350 crores on working capital level.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Ankit S. Patel for the closing comments.
- Ankit S. Patel:** With this, we conclude the call and would like to thank everyone for joining us today on this earnings call. If you have any further queries, you can connect to us. Thank you.
- Moderator:** Thank you. On behalf of Bodal Chemicals Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.