



“Bodal Chemicals Limited Q1 FY25 Earnings Conference Call”

August 14, 2024

Disclaimer: This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.

**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 Q1 FY25 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 “*” then “0” on your touchtone phone.

I now hand the conference over to Mr. Ankit Patel. 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 Exchanges 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 Q1 FY '25.

Global economy continues with uncertain geopolitical events, country-specific economic crisis and inflation. There have been multiple global logistic issues emanating from China as well as Red Sea impacting the global trade. Since last couple of months, we have been experiencing stability in demand for our industry products. It seems destocking position has come to an end and gradual recovery, but at low speed, is there. There is still uncertainty before end of war between Russia and Ukraine, but industry has started living with the circumstances.

The 2 major markets, the United States and the Europe, have been still 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 rates in U.S. causing financial condition to tighten, and recessionary trends continue impacting the demand. We are India's largest integrated manufacturer of dyestuff, dye intermediates and hold a meaningful market share in the world. We also have basic chemicals, caustic soda and recently a new product group is added, which is benzene downstream products. 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 our Operational Performance:

During Q1 FY '25, Company achieved total revenue of Rs. 424 crores, growth by 24% on year-on-year basis and 6% on quarter-on-quarter basis, mainly led by volumes. This is consecutive

second significant quarterly growth. It indicates recovery and management expects it to sustain. The absolute EBITDA stood at Rs. 37 crores, 19% growth on year-on-year basis. Interest, depreciation and other overheads have increased at the Company level on capitalization of Saykha's Benzene downstream project.

On the other hand, there was negligible contribution by this project at topline level due to the quality stabilization process. Hence, the increased overhead offset partial profitability of the other divisions. Our standalone profit after tax stood at Rs. 1.14 crores and consolidated loss after tax stood at Rs. 1.17 crores.

Coming to Dye Intermediates:

At present, Dye Intermediates, like I said, vinyl sulphone pricing has been stable, giving chance for recovery. For Q1 FY '25, total revenue from Dye Intermediates stood at Rs. 136 crores, a degrowth of 6% on quarter-on-quarter basis and growth of 46% on year-on-year basis, led mainly by volume. Vinyl sulphone and H acid prices were Rs. 227 and Rs. 431 per kg, respectively, in Q1 FY '25.

Being an integrated dyestuff manufacturer, we produce major dye intermediate products, and about 40% of these intermediates capacity is captively consumed, resulting in a cost advantage for our dyestuff products. The balance capacity of Dye Intermediates is served in both domestic as well as global markets. Considering the improvement in volume, we are hopeful this division will deliver a better performance in the coming days.

Coming to our dyestuffs:

Revenue from this business for Q1 stood at Rs. 135 crores due to better volume. The revenue growth in dyestuffs was 18% on year-on-year and 15% on quarter-on-quarter basis. Coming to Basic Chemicals, about 50% of our basic chemicals are captively used for Dye Intermediates. Our overall basic chemicals contributed around Rs. 40 crores for Q1, which grew by 16% year-on-year and 15% quarter-on-quarter basis.

Coming to the Chlor-Alkali business:

During Q1, Chlor-Alkali business has reported a revenue of Rs. 78 crores, growth by 12% Y-o-Y, led by volume growth of 14% year-on-year basis. Also, revenue grew by 15% and volume grew by 11% on quarter-on-quarter basis. The Company is expecting further volume growth in the coming days with anticipation of better chlorine consumption by surrounding CPW units, including a new unit. The prices are stable and we are looking forward to positive demand in the end use industry in medium term.

Global caustic demand remains balanced, and India remains net exporter of caustic with surplus capacity. Our Saykha Greenfield Project has commenced its commercial production of benzene

downstream products and achieved the required quality norms by now. Due to the negligible scale of production, this unit did not contribute to the revenue in Q1. The Company expects quality and production to stabilize by Q2 FY '25, and meaningful contribution in top and bottom line from this project will be in the second half of FY '25.

Sener Boya, which is our wholly owned subsidiary Company, is located in Turkey, and Turkey as a country is experiencing hyperinflation. During the quarter, due to AS 29, there is Rs. 2.4 crore loss and same is already a part of this declared result. Chinese and Indonesian subsidiaries have performed satisfactory. We have been moving up the value chain and working relentlessly towards diversifying the business from our core dyestuff and dye intermediates business towards specialty and chemical products like benzene derivatives. Manufacturers and exporters in India are having a challenging time managing the overhead cost.

Over the years, the chemical industry has seen a transformation. Long-term story of India remains intact and the chemical industry is poised to grow from here on.

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 satisfactory for the quarter gone by.

Our Standalone Performance for Q1 FY '25 is as follows:

Total revenue for Q1 FY '25 stood at Rs. 421 crores. EBITDA stood at Rs. 39 crores in Q1 FY '25. Net profit after tax for the quarter stood at Rs. 1.14 crores.

Our Consolidated Performance for Q1 FY '25 is as follows:

Total revenue stood at Rs. 424 crores for Q1 FY '25. EBITDA stood at Rs. 37 crores for Q1 FY '25, with a margin of 8.7%. Net loss after tax for the quarter stood at Rs. 1.17 crores for Q1 FY '25.

Division-wise the performance on a consolidated basis for the Q1 FY '25 are as follows:

Dyestuff revenue stood at Rs. 135 crores. Dye Intermediates' revenue stood at Rs. 136 crores. Basic Chemicals' revenue stood at Rs. 40 crores. Chlor-Alkali revenue stood at Rs. 78 crores.

Total production volume on a standalone basis for Q1 FY '25 as follows.

Dyestuff reported 4,504 metric tons. Intermediate reported 6,124 metric tons. Basic Chemicals stood at 56,469 metric tons. Chlor-Alkali stood at 22,262 metric tons.

With this, I conclude the Presentation and open the floor for further discussion by way of question and answer.

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

Aditya Khetan: Sir, my first question is sir, on to Basic Chemicals, sir, any particular reason that this quarter, the revenue growth has been around 15% on Y-o-Y basis and almost 15% on sequential basis? I believe the realizations have gone up. So, any particular reason why the Basic Chemical realizations are going up?

Ankit Patel: So, there are some volume improvements in a product called Thionyl chloride. That is one of the reasons why the volumes have gone up and realizations have gone up.

Aditya Khetan: No sir, the volumes have been flattish, but the revenue has gone up. So, realizations have gone up, so...

Ankit Patel: For the time being, the finished good prices were a little higher, I think that would be the main reason.

Mayur Padhya: It's a very negligible amount as far as total revenue is concerned.

Aditya Khetan: So, this increase in Basic Chemical prices is also a hint that the commodity prices are now inching up. So, our basic RM prices also would start to move up?

Mayur Padhya: No. See, when we say Basic Chemicals, it includes mainly sulfuric acid, it's derivative and thionyl chloride. And when we say 15% improvement, that comes to hardly Rs. 5 crores. So, in a Company with a total revenue of Rs. 424 crores, Rs. 5 crores is a negligible amount. So, it does not reflect what you are considering. There are other raw materials like caustic and aniline oil. These are the big raw materials, which affect particular raw materials pricing for our dye intermediates. So, there is no upward trend as far as raw materials are concerned. And on the other way, some cooling of pricing in aniline oil has been experienced.

Aditya Khetan: And sir, sir, on to the benzene derivatives, so we have not booked any revenue for this quarter. So, sir, what issues have been related to quality? So, has the issue been now resolved? And sir, what was the reason like, so we had booked the overhead cost, higher depreciation, higher finance costs. When the revenue is not booked, then how come the bottomline numbers are being looked like. I wanted to know about that part.

Mayur Padhya: See, as per accounting standard and auditor's requirement, when we can start the production, at that time, we need to capitalize the plant. So, in March, we were in a position to start production, and we have done some production also. But after that, as you know, there are 2 foreign technologies involved. One is KBR from Germany, and another is Sulzer from Switzerland.

Wherein as per contract, they are required to make up for production of the required quality. And we do not want to go into the market with, in a way, substandard quality. So, it was our focus and the technology supplier's obligation to achieve the required quality. So, for that, this process time was there, and that's why we have not done much production. And our focus was to stabilize the quality. So, this is another technical thing. So, that's why we have capitalized in March, but there was not any significant production, and that will start from this month onwards.

Aditya Khetan: So, sir, like for FY '25, how much utilization numbers? And what revenue are we targeting from benzene derivatives?

Mayur Padhya: See, we have mentioned in our presentation also, we are expecting that during this quarter, quality has already been stabilized, so production will also get stabilized. So, we will get half year for production for the current year, and that half year can contribute Rs. 100 crores to Rs. 125 crores, that much topline we can expect if we remain even conservative and say about 60%, 70% utilization of plant is there. So, this number we can expect in the second half of current year.

Aditya Khetan: And sir, on to the Chlor-Alkali, sir, for the last 3 to 4 quarters like the realization has been almost flattish at around Rs. 34, Rs. 35 per kilo. So, there hasn't been any improvement yet into the Chlor-Alkali side? Or do you think that structurally demand has been like flattish or there are some other issues which we can attribute to?

Mayur Padhya: The Chlor-Alkali demand is more or less stable. What advantage we have is our location. See realizations are slightly better than the western part of India. We are situated on the northern side and over there, no new capacity has come up in last several years. So, that's why we have some advantage over the players which are there in Gujarat and Rajasthan. So, what advantage we got, particularly in this quarter, is our numbers of production have improved from 19,000 metric tons to 22,000 metric tons. And that should sustain and there can be some improvement in this number. Otherwise, more or less demand is same. Gradual improvement is there because this is a product which is used in many industries. And India's growth as far as chemical, pharma and other sectors are there, so that will lead to some consumption growth of this product.

Aditya Khetan: Sir got it. Sir, one last question. We have seen an improvement at least on the EBITDA side, reaching a level of Rs. 35 crores. Like when we look at the last history of six-seven years we had done around Rs. 20 crores, Rs. 25 crores EBITDA only. So, we maintain this run rate and think that the benzene derivatives would start to flow in and higher realizations from caustic also...

Ankit Patel: I'm not sure how much of what I said was audible. I'll try to repeat the answer. It's about maintaining the EBITDA, right, which we did this quarter?

Aditya Khetan: Yes, sir. So, this quarter, there has been a good jump in EBITDA. So, suppose if the benzene derivatives and caustic soda, everything starts to flow in, sir, what could be the peak EBITDA

we can see? And are we on an improved trajectory right now, like all the negatives are behind? Just want to know that one.

Ankit Patel: We are definitely on the growth trajectory as far as all the divisions go. There is still room to improve a little bit of volumes in dyestuff, just a little bit in Dye Intermediates also. Basic Chemicals is, I think, doing at around 90%. So, there is no scope for volumes there. But benzene is definitely going to be commercialized this month, and we will start selling in good volumes now. And within 2 to 3 months, we are targeting to reach about 80% to 90% volume utilization. So, I think that should definitely contribute top and bottomline both. And Chlor-Alkali still has a slightly about 5% to 10% capacity utilization improvement space left. So, all this put together, I think maintaining this EBITDA level of Rs. 35 crores, which is definitely possible and should happen in the coming quarters. And I can say that we should do even better in the coming quarters.

Aditya Khetan: Okay. Sir, just one last question. Sir, on to the interest cost in this quarter, Rs. 21 crores. So, we can assume it to be around Rs. 80 crores to Rs. 85 crores or there would increase on the interest side. And on depreciation also, what is your...

Mayur Padhya: Interest costs will start reducing from this level because quarterly, we are repaying our term loan, and we are not expecting much improvement as far as working capital is concerned. There can be some improvement because our Saykha project will start. But this is something of a peak interest number, we can say. And from here onwards, there can be some reduction as far as interest is concerned. So, for the full year, we are not expecting it to be more than Rs. 74 crores, Rs. 75 crores.

Ankit Patel: If there are no further questions, we can conclude the call, please.

Moderator: Okay, sir. As there are no further questions from the participants, I now hand the conference over to Mr. Mayur Padhya for closing comments.

Mayur Padhya: Yes. 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 or questions, you can contact us from our numbers on the website. Thank you very much.

Moderator: Thank you. On behalf of Bodal Chemicals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.