



“Bodal Chemicals Limited's Q3 FY'2022 Earnings Conference Call”

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**MANAGEMENT: MR. ANKIT S. PATEL – EXECUTIVE DIRECTOR
MR. MAYUR B. PADHYA – CHIEF FINANCIAL OFFICER**

Moderator:

Ladies and gentlemen, good day and welcome to Bodal Chemicals Limited Q3 FY'22 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistant during the conference call, please signal for 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. Thank you and over to you, sir.

Ankit Patel:

Thank you very much. Good evening, everybody. I hope everyone is safe and healthy. On behalf of Bodal Chemicals Limited, I extend a very warm welcome to everyone for joining us on our call today. On this call we are joined by our CFO, Mr. Mayur Padhya and SGA, our investor relations advisor. I hope everyone had an opportunity to go through the "Financial Results" and "Investor Presentation" which has been uploaded on the stock exchange and on our company's website. To begin with, I will give you a quick overview on the recent developments in the chemical industry & on our company and then Mr. Padhya will walk you through the financial performance for the quarter.

During the quarter, prices of basic raw materials went up significantly, led by a surge in coal prices and lower supply from China. Recently, challenges around the international supply chain eased to some extent during the quarter, but freight cost continue to remain higher than usual. China seems to have recovered from its power and coal crisis, relieving the pressure on the international raw material supply to some extent. The Indian textile sector is seeing a structural turnaround and Indian players have benefited on account of Chinese suppliers losing the market share. This in turn has elevated demand for the dyestuff in India.

With over three decades of experience, Bodal Chemicals is India's largest integrated manufacturer of Dyestuff and Dye Intermediates. In the domestic market, our market share have stood at 13% for Dyestuff business, 20% for Dye Intermediates business. In the global market, our market share stood at 3% for Dyestuff and 6% for Dye Intermediates business. In today's environment where Indian suppliers are emerging as preferred partners globally, we have been able to leverage our leadership position. We have meaningful capacity across various products to serve the demand of end-user industries.

Basic chemicals such as Sulphuric Acid, ChloroSulfonic Acid, Oleum, Beta Napthol, Acetanilide and others which are used as key raw materials in the production of dye intermediates are part of our core product portfolio.

We are expanding our product basket including Benzene Derivatives and Chlor-Alkali products which have applications in pharma, agrochemicals, paper and other industries. We are moving forward with a very focused mindset and adding additional capacity across multiple products.

The Performance Overview of the Company: Consolidated total revenue for the 9MFY'22 stood at Rs.1,468 crores which is the highest ever nine months performance for the company. This growth was primarily driven by a better product mix and higher price realization. Rising end user demand and structural demand shifts as a result of global supply side tightness have also helped Indian manufacturers like us who operate on a large scale. This trend is also visible in our dyestuff business where we are not only developing a positive client relationship but also solidifying our reputation as a quality manufacturer in the global market.

We will now touch upon each business vertical and its recent developments. Dyestuff: Its end applications include textiles, leather, paper and other dyestuff consuming industries have been doing very well during the last few quarters. The dyestuff business has grown significantly in 9M FY'22 with revenue of Rs.512 crores compared to Rs.261 crores in the same period last year.

All key products in the Dyestuff category have performed well as overall capacity utilization has moved northwards. With various sectoral tailwinds in the textiles sector, the prospects for the dyestuff business look bright going forward.

Coming to the Dye Intermediates sector, Bodal is an integrated dyestuff manufacturer and we produce 25 dye intermediates products. And over 40% of these intermediates capacities captively consumed resulting in a significant cost advantage for our dyestuff products. Given the healthy prospect for Dyestuff, we strategically intend to move up the value chain increase, our captive consumption of dye intermediates and dyestuff. Other than captive consumption we also sell our dye intermediates in both domestic as well as global markets and we enjoy a leading position in the domestic market.

During the quarter, this segment also witnessed a healthy trend. Prices of dye intermediates products such as H Acid and Vinyl Sulphone surged during the quarter reaching Rs.270 per Kg for Vinyl Sulphone and Rs.470 per Kg for H Acid. And the benefit of the same is reflected in Q3 FY'22 result.

I am glad to share that we have commercialized Vinyl Sulphone's capacity expansion to 6,000 MTPA at our subsidiary, SPS Processors. Ramp up of this capacity will happen in coming quarters.

Basic Chemicals Division: We manufacture range of basic chemicals like Sulphuric Acid, Chloro Sulfonic Acid, Oleum, Beta Naphthol, Acetanilide which again help in terms of vertical integration for dye intermediates and help in improving the profitability of the company. Close to half of the basic chemicals capacity is captively consumed for dye intermediates production. Our overall basic chemicals segment contributed around 9% of our total revenue during this nine month period.

Chlor-Alkali business: In Q1 FY'22, we acquired our Rajpura Punjab unit from Mawana Sugars. This unit produces various Chlor-Alkali products like Caustic Soda, Stable Bleaching Powder, Hydrochloric Acid, Sodium Hypochlorite, Spent Sulphuric Acid, Chlorine, Hydrogen, etc.,

The Indian Chlor-Alkali industry witnessed strong tailwinds for the quarter and healthy demand for caustic soda, our key product in this unit. Caustic Soda prices were at an all-time high during October and continues to remain elevated. This unit works on a very old technology and we have earmarked a CAPEX for an upgrade which will help in increasing caustic soda capacity to 99,000 tons per annum from the current production of around 82,500tons per annum. This is a new segment for our business, hence year-on-year comparison is not possible.

The Chlor-Alkali business reported a robust performance in this 9MFY'22 with revenue of Rs.180 crores driven by a healthy volume uptick and soaring caustic soda prices, we are confident that demand from FMCG, textiles, paper industries will be sustainable and we will be the reliable and preferred partner. At full capacity, we expect this unit to generate additional revenue of around Rs.300 crores at optimum levels with the EBITDA margins in the range of 20% to 22%.

Benzene Derivatives and Sulphuric Acid at Saykha. Our Saykha Greenfield project is in progress and we plan to have it commercialized by Q1 FY'24. Under benzene downstream products, we will be manufacturing products like MCB, PNCB, ONCB MNCB, DNCB, PNA, 2, 4 DNCB and MPDSA which are used in pharma, dye intermediates, specialty chemicals and agrochemicals. We should be able to sell these products to our existing basic chemicals clientele and partly will be used for our captive purpose. The capacity of sulfuric acid and derivatives will be 3,40,000 tons per annum which will include Sulfuric Acid, Oleum 23, Oleum 65, Liquid SO₃, Chloro Sulfonic Acid, Liquid SO₂, etc.,

We will set up a four-step integrated product change which will lead to cost efficiency, better productivity and higher margins for the company. We expect this project to generate additional revenues of around Rs.550 crores at optimum utilization levels with EBITDA margins in a range of 15% to 18%. 33% of our total business came from exports, hence the increase in freight and transportation cost has increased our other expenses considerably.

Some of the other developments: We are doing business in 45-plus countries and have a basket of 200-plus products. This diversification requires intense working capital resources for managing inventory of key raw materials and finished goods along with a large transit time for export markets. In event of supply chain tightness, we prefer to keep inventory and serve our customers requirement in less a timeframe.

We have established various trading and marketing subsidiaries to create a stock point and penetrate the new geographies and clients. Our Turkey subsidiary, Sener Boya sales dispatches have improved meaningfully. Bodal China has also performed well and ended a 9MFY22 with

a PAT of Rs.2.4 crores. SPS also performed well with a significant growth in top line. In a medium to long term view these subsidiaries will penetrate the respective region and will bring meaningful business to our company.

Our top three strategic objectives would be to ramp up our existing capacity, commercialize our Vinyl Sulphone capacity at Kosi unit and complete the Rajpura project by Q3 FY'23, and Saykha by Q1 FY'24.

We have been moving up the value chain and working towards diversifying the business from our core dyestuff and dye intermediates business to other specialty chemical products like benzene derivatives and Chlor-Alkali products.

The world is recognizing India as the world's emerging second largest manufacturing hub. And this will benefit all manufacturers, including chemical manufacturers. Many Indian chemical companies have benefited from the favorable opportunities in recent years. Furthermore, stringent restrictions and compliance inherently redirected demand to organized players like us. Indian chemical companies like us are poised for growth owing to increasing preference for a sustainable partner.

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. Overall performance of the company has been healthy for the quarter gone by. Our operational facilities are running at the pre-COVID level now. This growth is driven by better price and product mix.

As far as standalone performance is concerned, we did total revenue for Q3 FY'22 at Rs.514 crores, a growth of 53% year-on-year basis, EBITDA stood at Rs.73 crores in Q3 FY'22 which is at the growth of 90% year-on-year basis, net profit for the quarter stood at Rs.42 crores, a growth of 84% year-on-year basis.

Our standalone performance for 9M FY22 is as follows: Total revenue stood at Rs.1,343 crores, growth of 82% year-on-year basis, EBITDA stood at Rs.182 crores, growth of 265% on year-over-year basis, net profit stood at Rs.101 crores, growth of 462% year-on-year basis.

Consolidated performance is as below: Total revenue stood at Rs.568 crores for Q3 FY'22, growth of 52% year-on-year basis, EBITDA stood at Rs.56 crores for Q3 FY'22, growth of 23% year-on-year basis, net profit for the quarter stood at Rs.20 crores for Q3 FY'22, the de-growth of 26%.

Turkish Lira has been volatile and has impacted our subsidiary Sener Boya and booked foreign exchange loss of around Rs.18.7 crores, impact of the same has already been incorporated in consolidated financials.

Our consolidated performance for 9M FY22 are as follows: Total revenue stood at Rs.1,468 crores for 9M FY'22 against Rs.810 crores of 9M FY'21. This included export of 33% and domestic sales of 67%. EBITDA stood at Rs.162 crores in 9M FY'22 against Rs.56 crores of 9M FY'21. Net profit for the 9M FY'22 stood at Rs.70 crores against Rs.18 crores of 9M FY'21.

Nine months FY'22 performance of key subsidiary were healthy. SPS posted revenue of Rs.103 crores, a growth of 47% on year-on-year basis. BCTPL subsidiary reported a revenue of Rs.6 crores, Sener Boya has reported total income of Rs.70 crores, a growth of 26% on year-on-year basis. Total income from Chinese subsidiary was Rs.32 crores, growth of 175% on year-on-year basis.

Segment-wise performance on consolidated basis for the 9M FY'22 are as follows: Dyestuff revenue stood at Rs.513 crores, a growth of 96% on year-on-year basis. Dye Intermediates revenue stood at Rs.522 crores, a growth of 42% on year-on-year basis. Basic Chemicals revenue stood at Rs.133 crores, a growth of 55%. Chlor-Alkali division and TCCA revenue stood at Rs.180 crores and Rs.24 crores respectively for 9M FY'22.

Total production volume on standalone basis for 9M FY'22, Dyestuff reported 15,673 MT. Dye Intermediates reported 18,817 MT, Basic Chemicals reported 1,65,815 MT, Chlor-Alkali stood at 58,203 MT, of which caustic soda stood at 42,738 MT, TCCA stood at 1,270 MT.

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

Moderator: Ladies and gentlemen, we will now begin the question-answer session. First question is from the line of Aditya Khetan from SMIFS Limited. Please go ahead.

Aditya Khetan: So, in other expense, how much is the freight cost in this quarter as compared to last quarter and in the similar quarter of the last financial year? Also, if you can highlight the quantum number increase on YoY basis?

Mayur Padhya: I don't have the exact number at present, but increase in freight cost is pass on to our customer. So, whenever we give a quote to customer, at that time we consider the present freight price and add in it. So, the freight cost increase has become part of our revenue, at the same time it is expense also.

Aditya Khetan: Sir, if you can tell me the average of the last four, five quarters and how much would that number be above the average, just a short ballpark idea if you can give like just want to understand how much increase is there in the exports?

Mayur Padhya: It will be difficult for me to give such ballpark number. You can connect me separately and I'll definitely answer your question.

- Aditya Khetan:** Sure, sir. Second is on the Senar Boya subsidiary. If you can explain how does the business happen here, I mean, so do we just send the inventory to the subsidiary and if there is a currency depreciation, the impact will directly take it on the P&L, so how the business happens, because in this quarter we had seen an 18 crores of impairment, so since it is a marketing subsidiary, so we just send the inventory and because of that currency fluctuation, do we have to directly book it on the P&L, how is the thing which are happening here?
- Mayur Padhya:** In Sener Boya, as you have mentioned, we supply adequate dyestuff over there and then it is distributed locally as well as it does export to nearby countries. So, when we acquired 80% of this company, at that time volume was about 100 MT per month. Though there was COVID, we have increased it by about 150% and last year's average volume was about 251 MT per month. Whenever there is increase in volume, there is an additional requirement of working capital, at the same time it is important to note that over their industry practice of credit days is much higher than what is prevailing in India. Earlier it was about 8 to 12 months credit period. So, because of that fund blockage was higher, and at the same time Sener Boya buy from Bodal(India) or some other supplier on credit terms. So, there is a credit of about five to six months. So, when Sener Boya import on credit basis, so it has open creditors in dollar terms. So, when dollar versus lira fluctuation is there, there is a loss. At the same time when they sell to local and when they recover in lira and use that fund for supply to importer, loss is there. At the same time, Sener Boya has taken a loan of about 4.1 million from Bodal. So, because of accounting standard, we are required to pass entry of MTM losses. So, when we have given the loan, at that time currency rate was different and then depreciation was there. Because of loan and trade credit which was open with Sener Boya this loss was there. Another thing, for your earlier question I could able to find out the value of freight and handling charges. There is an increase of about Rs.8 crores on quarter-on-quarter basis. Earlier it was about Rs.9 crores which has moved to about Rs.17 crores.
- Aditya Khetan:** If you can highlight to this, in Sener Boya, you had said 100 MT Per Month was the start and that ramped up to around 250 MT Per Month . So, what is the current run rate now?
- Mayur Padhya:** It is about in the same range; 250 to 275 MTPA. So, we are focusing at present to find out the solution for this FOREX loss and then we will ramp up our sales over there. This is what we are presently focusing.
- Aditya Khetan:** Sir, on the SPS Processors part, we are witnessing an increase in revenue and that is definitely led by the Vinyl Sulphone plant operational, but on the bottom line, we are not seeing the profit despite increasing in the vinyl sulphone price, means it was a good time when your plant is ramping up and the prices of vinyl sulphone are also going up, but still that is not witnessed in the bottom line. So, if you can highlight what is the reason for it? And what is the loss for this quarter from SPS Processors, that figure if you can give?

- Mayur Padhya:** Vinyl Sulphone plant has started just in last week only. So, last quarter's performance, vinyl sulphone's contribution was not there, last year we did better top line because some stock was lying at the quarter-end 30th September. Before six months, H Acid prices were in the range of Rs 370 to Rs 400 which has moved to near Rs.485 to Rs.500. So, there is an increase in raw material as well as finished goods prices. So, that's why there is an increase in turnover. And some stock which was lying at the quarter start, which we could sell, and that led to increase in turnover. And profitability will definitely start now because last week we have started vinyl sulphone production. And if we may consider this month and next month for stabilization, then from April onwards, it will start giving effects in bottom line and the top line.
- Aditya Khetan:** On the demand side, if I get to know, so what you're saying that the demand in the textiles has moved a bit and that has led to increased demand in the dyestuff and that change is linked to dye intermediates, so dye intermediates prices are also moving. So, just want to know is this a global phenomenon we are witnessing that demand has increased over the last quarter but this is particularly so linked to India only now or China on all these factors, India has benefited or this is a global phenomenon where we are witnessing the demand is going up, so this could sustain over the coming quarters. So, what is your view on this particularly on the demand side?
- Ankit Patel:** Dyestuff is always linked with the global demand because there is a parallel business that is compared to the domestic business. So, I would say that because globally things have come back to normalcy, I think overall consumption and overall demand of almost everything has increased, that is the reason there is good demand in the textiles sector in domestic as well as in international market.
- Aditya Khetan:** So, this demand that we are factoring is to continue because what I'm trying to understand now considering that the crude price has also moved to around \$95 a barrel, how you see if suppose if it crosses a certain level considering \$100, would you start to see the demand destruction to take place or you see this to continue going ahead also, what demand we are witnessing right now?
- Ankit Patel:** We expect the demand to continue to be strong at least for another two to three quarters, because even in this recent COVID wave, we can see that countries are getting back to normal times and the European governments are taking up the restrictions, though there are cases. So, now I think the threat of COVID has really changed in this last couple of months where people are treating it like a normal illness. So, because of that the normal life, will not be affected like it did a couple of times in past few quarters, that should really help the overall business practice where the demand should continue and there should not be many hurdles to do the business globally.
- Moderator:** Next question is from the line of Tejas Shah from Unique Stock Growth. Please go ahead.
- Tejas Shah:** This Turkish lira loss what we had last quarter, so is the currency fluctuation still going to damage it or how is the scenario right now?

- Ankit Patel:** At the close of the quarter, the US dollar to Turkish lira was around \$13. Currently, it is at around \$13.5. But we have already taken steps to avoid that in future. What we are doing is earlier we used to sell it on credit terms from Bodal Chemicals India to Sener Boya, Turkey, which we have stopped and plan to convert the entire business on an immediate payment basis. So, that amount is not exposed to any FOREX risk and locally the fund that we need to sell domestically in Turkey and surrounding countries where the credit period is quite long, we are taking a local Turkish working capital loans. We've already got a couple of loans and we are taking more and which we will be using to avoid again the funding that we used to do from India. So, within a couple of months, we are planning that this problem will be permanently eliminated.
- Moderator:** Next question from the line of Isha Savla from Arya Securities. Please go ahead.
- Isha Savla:** Do you pass on the inflationary pressure to customers immediately or with a lag effect? Can you provide us some insights on pricing strategy of our products?
- Ankit Patel:** The pricing strategy depends more on supply/demand front because India and China compete in this space since many years. Dye Intermediates is where China is more dominating than India, where china has about 70%, 80% share. In reactive dyes, where the majority of the production comes from India, there India has about 50% of the market share globally and China and other countries have about 50%. China usually does not export dyestuff because again they are the largest consumer of dyestuff in the world. For dye intermediates, they export and traditionally china used to export a lot and that is why the dye intermediates space in India used to be very volatile in terms of margin, but last few years because of these environmental issues in China, the aggressive growth has not come in China from last five to six years, and that is why the imports have come down and there is a little consistency in the margins of dye intermediates and dyestuff players in India. And this inflation effect, we usually pass it on to the customers, for example, if our raw material prices or utility or energy sources prices go up, then it is the same effect for all and all these raw materials also has global scale suppliers, for example, coal had gone up in India and China, and similarly some of the raw materials that we have, are used in China or in other countries also. So, because being this international supply chain, everybody is able to pass it on to customers.
- Isha Savla:** Sir, can you throw some light on the current scenario Chlor-Alkali business like what are the current price trend of the product and how global payers are doing, is there any major shortage in the global market?
- Ankit Patel:** There is a shortage globally because last four months, there has been continuous export from Gujarat where there are majority of Chlor-Alkali players. That is a sign because usually caustic soda export doesn't happen from India. Usually, there used to be some imports coming from Middle East and some other countries. So, the situation has reversed and there is supply/demand gap globally. Energy prices are higher everywhere including China, India, US and Europe and the main raw material cost for Chlor-Alkali is energy i.e electricity. So, that is one reason.

Caustic soda goes into multiple sectors where overall manufacturing has gone up globally. This is one of the feed stock and that's why the prices are remaining strong. Also, there's another factor which is the Olympics that is happening in Beijing at the moment, because of that some production have been affected in that region, that also plays a key role. That is likely to have some effect for another month or two but post-April, the Chlor-Alkali and caustic soda prices to remain strong for at least one more year. Current rate is Rs.62 per Kg, it went up to Rs.70 per Kg in the last two months., but post-April, it may come down a little but I feel that it will still remain in very strong margin levels.

Isha Savla:

Sir, did you onboard any new customers recently? Can you highlight client concentration like how much top five or top 10 customers contribute to our total business?

Ankit Patel:

Basic chemicals caters to agrochemicals, pharmaceuticals, overall different chemical companies. So, there we have wide variety of buyers and we supply to all the leading pharma companies of India in Telangana, Andhra Pradesh and in Gujarat area . We supply to all the leading agrochemical and different chemical companies of India, . We also supply to all the chemical companies also, mainly in the western part of the country. In dye intermediates, our customers are from dyestuff players where more sales happen domestically because there are many dyestuff manufacturers here, but also there are some MNCs which are present like Huntsman that is an American company, but they are manufacturing plants in China, India, etc., So, we supply to them. There are also some large players in Eastern countries like Korea and Taiwan, we export to those countries. Because of these changes in China's supply of intermediates, the situation has reversed in intermediates and there are some export opportunities of intermediates to China. There are wide variety of customers domestically and internationally . In dyestuff, there are two models; one is B2B and B2C, last five years we have been concentrating on B2C model a lot. That is the reason we have continuously been opening depots and warehouses across India. We have appointed dealers and we have our own officers and depots also where we supply directly to the consumers, we see a good growth there and acquisition of Sener Boya in Turkey was one of the reasons why we wanted to enter. Turkey is the largest market for textiles. So, that is the reason we bought a stake in that company to convert the business from B2B to B2C. Dyestuff goes into MNC's business also. MNCs earlier about 10 -5 years ago, were very aggressive and they had a lot of share but larger companies like Bodal has been taking that share away from large MNCs. So, that transition has been happening since few years.

Moderator:

Next question is from the line of Gaurav Singh from Sarath Capital Please go ahead.

Gaurav Singh:

A couple of questions. On the caustic side, were you able to see the entire benefit of price rise in the last quarter or did you have outstanding quarter contracts that you had to service at the existing prices?

- Ankit Patel:** There are some long-term customers like IOC which is one of the customers in north India where we do contracts and HUL, but our volumes of those long-term customers are very less. So, our average prices for this particular quarter and even at the moment have been very strong. They've always been in the range of around Rs.45, Rs.46 per Kg.
- Gaurav Singh:** That was for December quarter?
- Ankit Patel:** For the December quarter it was between Rs.40 - Rs.45. Currently, it's slightly higher.
- Gaurav Singh:** On an average basically till now for this quarter, right?
- Ankit Patel:** Yes.
- Gaurav Singh:** Could you talk about the loss at SPS Processors that we did last quarter gone by?
- Ankit Patel:** I don't have the number, but, yes, there was a loss in few crores in the September quarter.
- Gaurav Singh:** Like you've said that dye intermediates, there are actually now export opportunities to China instead of them sending it to India. And given the competitive intensity that reduced, would you say that the margins that you do right now in dyestuffs and dye intermediates of about 13% to 15%, they're stable and we won't see increasing volatility that used to see in the last 10, 15 years?
- Ankit Patel:** We have been giving this guidance that our current business model is around 14%, 15% EBITDA because of our integration. If we had a standalone business of dye intermediates or dyestuff, it could be a little different where dye intermediates could be a little higher but altogether it is around 14%, 15% which we have done this year. And with the addition of this Chlor-Alkali which is traditionally higher on the EBITDA side and also the sulphuric acid and benzene derivatives which we are doing in Saykha, that is also about 18%, 20% EBITDA business. For FY'25 when all this will have a full effect, we want to end up around 17% 18% blended EBITDA. But about 14%, 15% for our existing business right now, I think is very much sustainable.
- Gaurav Singh:** This loss that we've had in Turkish subsidiary, sir, do we expect anything to happen this quarter as well given where we stand today?
- Ankit Patel:** I'll give you the numbers of the December quarter. At the beginning of the quarter the US dollar to lira was \$8.8 and ended at \$13. So, this depreciation had a large effect. And when the quarter started at \$13 currently, it was \$13.5. If it remains around this then it would be a very small effect. And going into the next quarter I think we should be able to eliminate this issue. Only for this quarter it's not going to be any substantial amount. Already we are at mid-Feb, one and a half months has already gone by, so another one and a half month, we are not looking at any big loss like we did in December quarter.

- Gaurav Singh:** As the prices of the intermediates and dyestuff have increased, probably the spreads has also increased for all of these, are they still strong as they were in the last quarter or have you seen them narrow down?
- Ankit Patel:** They are similar to the December quarter levels. but again some of the raw materials prices have also come down. We also had issue in the coal prices which has been slightly better, some of the raw materials also had shot up which have corrected, we should be at similar margins which we did in December quarter.
- Gaurav Singh:** On your non-caustic business, what's the capacity utilization the company is running at?
- Ankit Patel:** In intermediates, we are at 80%-plus. Dyestuff, at 70% which is good for us. Basic Chemicals, we are always at 90%, 95%. In Caustic, because it is an old plant and we are in the process of expanding and upgrading, at the current capacity we are running at more than 90%.
- Gaurav Singh:** In the dyestuff and dye intermediates, are you utilizing the entire capacity that you can or is there still some shortage?
- Ankit Patel:** 70%, 75% is the capacity available because it is a batch type process plus there are changes because there are different shades and different colors, So, that also takes a lot of time. I would say 75% is a peak utilization on a long-term average. And in intermediates, it is around 80%.
- Gaurav Singh:** And that's also something that you're doing already, right?
- Ankit Patel:** Yeah, that we are doing already.
- Gaurav Singh:** So, basically in entire business including caustic and whatever is available, you are doing 100% capacity utilization, right?
- Ankit Patel:** Yes.
- Gaurav Singh:** Only the SPS Processors part which is to ramp up vinyl sulphone, outside that everything you're doing almost 100% capacity utilization?
- Ankit Patel:** Yes, in the SPS, there is already one plant and we are adding one more plant. When we add this one more plant, there is a good synergy of cost, it's going to reduce the cost of a particular plant. That is one of the reasons we have set up this plant and we have acquired the stake in that company because it had the required permissions to set up the second plant also. That is how vinyl sulphone and H Acid stands together because they internally use each other's effluents or some of the byproducts which reduces the cost for both prices.

- Gaurav Singh:** So, all your incremental CAPEX is basically coming on the caustic side where you are doing the modernization and the benzene side, there's nothing that we expect to do in the dyestuff and dye intermediates from here on?
- Ankit Patel:** No.
- Gaurav Singh:** Going forward also, you don't intend on increasing the dyes business and you only want to do the benzene business so what's the strategy going forward from there?
- Ankit Patel:** In dyestuff, we are still not the largest player in India and we are still smaller compared to some of the giants of the world, like Chinese players and all. So, in dyestuff, we definitely see an opportunity where there can be some Brownfield expansions possibility at our Baroda unit which will be much lower in a CAPEX and . We are only using around 40%, 45% of our intermediates captively. So, the long term goal is to increase our captive consumptions and set up more dyestuff facilities. But at the moment we have reached about 70% realization. So, I think that is a good number but currently our focus is more on this benzene derivatives and sulphuric acid and caustic soda. But in dyestuff, it makes sense for us to keep growing in that space. As and when we acquire the B2B and B2C share, I think we should keep adding more capacities.
- Gaurav Singh:** Since there's not a lot of industry about the area that you are in north for caustic, so any plans to do forward integration as much chlorine consumed in-house?
- Ankit Patel:** We have a hydrochloric acid plant in north . There are two plants and it's a large setup. So, we are able to convert it into a captive HCL plant and sell because there's a decent market in the north. Also, there's a product called stable bleaching powder which uses chlorine, that we have already doubled the capacity since the acquisition and there also we are planning to grow a little bit, because it is a Brownfield expansion i.e within the same building.. Parallely, we are exploring new opportunities. It's going to be our long-term business model where we will set up chlorine consuming plants , because that is the best business model possible in the Chlor-Alkali industry. We have new projects in mind, but at the moment we are committed to our Saykha Greenfield projects and then the expansion of the Punjab. So, once that is over we can maintain our healthy debt ratios and then as and when we will take the decision, but we will grow more.
- Gaurav Singh:** So, right now chlorine that you're selling is at negative prices?
- Ankit Patel:** In last one and one and a half months there is some pressure on chlorine. Currently, the price in Punjab is around Rs.(-2.5), in Gujarat it is even worse because we buy a lot of chlorine for a couple of our plants from there. So, the price in Gujarat is around ex-plant for the manufacturers is around Rs.(-5) In north, it is a little more comfortable and it is at Rs.(-2.5).
- Gaurav Singh:** How much chlorine are you selling outside not consuming inside in your plant?

- Ankit Patel:** We sell about 70, 80 tons per day to the other consumers, but we also have five other chlorine consumers set up next to the plant where we sell via pipeline. So, traditionally that is the best way to sell chlorine and all these large companies here in Gujarat also have similar models where the smaller capacities are set up next to the larger chlor alkali plant. So, we already have that setup there. S We don't have to sell too much in the tonners which is high in costing and more hassle. We are already exploring some more companies who want to set up plants next to ours, that is also in the process, because when we expand we want to have pipeline buyers.
- Gaurav Singh:** That would be CPW like kind of people, right?
- Ankit Patel:** Yeah, so we have five CPW buyers right next to us.
- Gaurav Singh:** Sir, I request that if you could solve this Turkish lira issue because it's disheartening but you did pretty well on the caustic side and all the profitability basically went down the drain in the Turkish lira?
- Ankit Patel:** We are on it. I think it is just a matter of few days and we will make sure that this will not hurt us again.
- Moderator:** Next question is from the line of Prit Nagarsheth from Wealth Finvisor. Please go ahead.
- Prit Nagarsheth:** Most of my questions are answered but last thing I want to know is what kind of guidance you have in place for this quarter and for the full year?
- Mayur B. Padhya:** Mr. Ankit Patel has mentioned earlier, that the prices of caustic soda, dye intermediates and dyestuff were similar than what they were prevailing in the last quarter. So, we are expecting a kind of similar quarter this time.
- Moderator:** Next question is from the line of Aditya from SMIFS Limited. Please go ahead.
- Aditya Khetan:** Is there any shutdown planned in this Q4?
- Mayur B. Padhya:** No, there is no planned shutdown in Q4. Last year we took shutdown in February, but at that time we didn't take in earlier November. So, this time we took maintainance shutdown in November itself. so there is no requirement to take any shutdown in fourth quarter.
- Aditya Khetan:** On the dyestuff part, you have said to an earlier participant that we are at 75% to 80% in the peak utilization level. I just want to confirm it sir in FY'18 we had done around 92% utilization levels, thereafter we had taken a plan to expand from 17,000 to around 35,000 tons. So this 35,000 tons you can operate on 75% peak utilization level? if this is so, are we able to get the return on capital employed with this low level of utilization levels? And primarily sir what is the reason for 75% taking as the peak utilization level?

- Mayur B. Padhya:** Dyestuff, I couldn't recollect, but intermediates we have reached to that level. In Dyestuff, as Ankit bhai mentioned, it's a process, if we go on changing the product so it takes a longer time. But if we produce the similar color in the same plant on continuous basis, then we can increase the utilization. Say if we dedicate one plant for black color, then there is no requirement of any time wastage and we can improve the utilization.
- Ankit Patel:** Also, the ROCE for this expansion that we did is not bad. The reason is that 17,000 to 35 000 tons expansion happened in the same complex. So, initially the first phase that happened at Baroda was in 2008 and then we had the clearance to set up more and we had already planned the second phase, so which happened in 2016-17. So, that 35,000 in FY'17 happened at a less investment. And that is the reason I mentioned earlier that there is still some more opportunity where we can expand more into our dyestuff capacities, that can be a new Greenfield plant that we can do at 40, 50% cost.
- Aditya Khetan:** So, is there any change of a strategy which we can look in the future like as far as that so. If we focus on a particular color, so we can increase the productivity and the utilization also. So, currently we are making multiple colors, so that is also leading to slow ramp up of the capacity. So, in the near future like we can focus on a single product, single color which will help us to reach peak utilization level?
- Ankit Patel:** I think more than the peak utilization what is important for us is to gain more market share by creating a stronger brand. This is more important because the bigger players are enjoying having their own brand around for many years and so we are somewhere on the same track. So, I think increasing that 5% or 10% more utilization will not help us that much. It may reduce the cost by a little, but I think our focus is more on gaining the market share and converting some of the business to a B2C model.
- Aditya Khetan:** On the raw material prices, so which are the raw materials currently which are linked to crude and now with the rising crude prices, are you witnessing a similar trend and can we be able to pass on this crude prices rise?
- Ankit Patel:** The raw materials that we buy are not linked with the crude price, they go up and down with the supply and demand scenario. That is what we have experienced. When crude price was lower, but few months ago, when there was a sudden demand of almost everything, the prices of some of our raw materials were even higher. Now, the crude price has really gone up in this recent time, but the prices are either maintained or even some of the raw materials prices have actually come down. So, the only two products where the prices are really high is one is sulphur and second is caustic soda. But they are again not linked with crude. I think sulphur price is increasing continuously since few months because of the large consumption and large demand coming from the agriculture sector. Because of this everything is getting back to normal. I think agriculture is short of all the supplies globally. And other things like coal also, this disruption happened because of this sudden disturbance in the routine supply which happens from

Australia, Indonesia and some of the other areas. But like I said crude definitely has an effect, I'm sure the manufacturers of the crude-based products will definitely try to pass it on, but I think still it is in a controlling range, it's not really increased too much. I think their margins would still be good and I don't think that there will be any sharp increase in some of the raw materials that are linked to crude for us.

Moderator: The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: So, what I understood from the conversation on the call is that probably we are doing pretty much full capacity of what we have and we will still add on to some expansion in caustic and vinyl sulphone plant to be added and the benzene derivative. So, tactically we can be heading towards a Rs 2,500 crores kind of a top line in two years, is that a fair assumption or looking at the current prices, we can actually even do much better than that?

Ankit Patel: Yes, for FY'23, if all the projects are streamlined and through a full utilization, then we can definitely do around 2,500 crores. And I think in FY'25, it can go as high as about 2,800 crores also depending again on the selling prices.

Ravi Mehta: So, when is this benzene derivative plant going to come onstream?

Ankit Patel: Because there are multiple plants and there is a lot of synergy, there are four step integration, so the entire process of starting all the plants will happen in small phases, so it will take probably four months, five months to start all the plants once we start the first plant. So, we are targeting to start the first plant around January and I think around first quarter of next financial year, we should have all the plants running and we should be at some decent utilization in the first quarter.

Ravi Mehta: And the EBITDA you mentioned can go to 17%, 18% on a blended basis as a total business?

Ankit Patel: Yes, that is our target. To have a full effect of all these growth drivers in FY'24, with the top line reaching around 2,500, 2,800 levels and EBITDA at around 17%, 18% level.

Ravi Mehta: I wanted to ask on the debt side. So, the debt is now I think around 350 crores levels. So, what can be the peak once you finish this CAPEX?

Mayur B. Padhya: So, there can be about Rs.500 crores plus term debt what we are expecting by this project end and there can be another about Rs350 crores of working capital. So, it can go as high as Rs850 to Rs.900 crores.

Ravi Mehta: Which will be peak and then we should see the repayment from the cash flows?

Mayur B. Padhya: Yes.

- Ravi Mehta:** You are not there in the benzene derivatives, what gives you confident you will be able to ramp up the plant and sell it or is it more of internal consumption?
- Ankit Patel:** We do have a similar kind of processes which we do in in our existing business like in first plant of benzene derivatives is MCB where it is very, very similar to technology and process part is very similar to what we do already in thionyl chloride plant. Again, say, next part in benzene is a PNCB which is nitration. So, again we have been doing nitration since 2006 in our organization. Even again the third step is PNCB again it is a nitration and PNA and MPDS these two products we already have experience of manufacturing those. So, I think we are doing something new, yes, but it is not completely new to us. We are also taking technologies from global players. So, we are not doing something indigenous or something local, for the critical part we have tied up with technology providers where the orders have already been given. Some of the key equipments will be provided by them and also the know-how. So, that is why we are confident. I think that we should be able to install all these plants on time and also ramp up the capacities on time. And it is that particular sector is definitely going through a good gap of supply and demand. That is where the price is also very-very strong in last couple of years, because some large capacities that were stopped in China. Also, PNCB goes into Paracetamol. So, Paracetamol demand also has been very strong. So, there are many reasons why I think the sector is doing good and I think it's very much likely that particular sector will continue to do good.
- Ravi Mehta:** Just one question was on the FOREX part. So, what we incurred was actual or a notional market-to-market if you can just clarify that?
- Mayur B. Padhya:** Majority part is M2M, but if it remains in the same range, then it will become actual slowly and gradually. But if it recovers from say 13 to once again 11, 12, then there can be a profit in the current quarter.
- Moderator:** Next question is a follow-up from the line of Tejas Shah from Unique Stock Growth. Please go ahead.
- Tejas Shah:** What is the possibility of bad debts happening from the Turkish market?
- Mayur B. Padhya:** There is almost nil possibility in Turkish market. Reason behind over there they normally gives a cheque. When we sell for even six month credit, then at the time of sales, they deposit the cheque and over there as per their criminal law it is considered a very big issue if they dishonor the cheque. So, normally nobody would like to dishonor their cheque and that's why we are being re-assured that over there, there should not be any bad debts.
- Moderator:** Next question is from the line Gaurav Singh from Sarath Capital. Please go ahead.
- Gaurav Singh:** This dyes intermediates and dyestuff business, you've said that what you want to do going from here is to increase the brand presence in dye stuff. But if I were to look at your competitors and especially in the dye intermediates space the likes of Bhageria Industries or pure play dye

intermediates they have done margins of around 22% to 23% this quarter. So, isn't it more profitable to do dye intermediates rather than trying to scale more investments towards trying to get a branded play in dyestuff?

Ankit Patel:

Dye intermediates, because about six, seven years ago this issue happened in China and dye intermediates manufacturing is where the more environmental damage concerns are there because there are a lot of effluents and a lot of treatments are required. Dyestuff is comparatively easier. So, the disturbance happened in the supplies of dye intermediates. That is when I think this chemicals sector turnaround started. So, since then there have been many new companies because the H Acid prices used to be Rs.250, I think went up to like Rs.1,500. There was a good phase for two years where the prices were just very, very extraordinary in some of the dye intermediates. So, it attracted a lot of the investments, it attracted expansion of plants, it attracted new players in the industry. So, for example H Acid now there are so many plants, so it doesn't go beyond a particular margin range because anytime it goes into a good margin range, all the plants ramp up and others. Even there are a couple of plants which don't operate when the prices go below a certain price. Having already 20% of market share, if we add more and more capacities of dye intermediates, I think it will definitely affect our overall margin which we do with the current capacity utilization that we do. So, even if you talk about Bhageria, though they have been doing wonderfully well in this intermediates space, they have not really added more capacities or they have not really done any Greenfield project in the intermediates. If you look at other AksharChem which is again there in a couple of intermediates, they added H Acid but they have not further increased vinyl sulphone or H Acid capacity, even key industries has also been stagnant since like for a few years. Even Shree Pushkar, which is again present in few intermediates, they have also not increased. So, your question is valid but then I think we all feel that there is enough capacity already here. And we have this good opportunity of converting it more and confirming our sale of intermediates which we can convert into dyestuff and sell. So, we have another way to sell our intermediates thing directly with more and more market share, more production of dyestuff, we have a confirmed business where we can sell dyestuff also, where again I'm selling the same intermediates that I produce.

Gaurav Singh:

So, in a normal scenario where prices are not up and down, your dyestuff and dye intermediates business as a whole at optimum utilization what's the ROCE you get out of that business?

Ankit Patel:

Because in now last three, four years majority of the quarters have been normal. That big volatility stopped happening since I think three years now. With our business model with our product range with our integration of basic chemicals also and also single complex, we can do about 14%, 15%. But I don't think that is possible for everyone if they have a similar model. But we can definitely do around 14%, 15%.

Gaurav Singh:

Shouldn't it be higher since you've said that China's capacities are not being added, they're stagnant where they are, so incrementally going forward if there are no additional capacities

coming in China and textiles market is looking up, shouldn't that reflect in the ROCs of this business as well or do you feel like they're going to stay at this ballpark?

Ankit Patel: I think they are going to remain around this much only because there has been continuously some expansions or smaller new units have come up every year since few years. So, that is still not letting margins go beyond a point. So, for example in H Acid, now any extraordinary margin I think will not happen for a long time because there are so many capacities. Similarly, some of the other intermediates are very small in terms of overall volumes. So, only H Acid and vinyl sulphone are the large products, all the other ones monthly numbers are very, very small. There's not too much of opportunities.

Gaurav Singh: What's the ROC you're looking at in the benzene business?

Ankit Patel: It is definitely better. Again, it is a Greenfield project, so there will be some cost involved there because Greenfield development I think it's going to have some extra cost, it's not just going to be planned cost. Because currently the competitors are doing somewhere in the range of around 25% EBITDA levels, so we are not treating it like a 25% EBITDA but I think traditionally if I look at that five or seven year average it is definitely around 20%. So, that is what I am hoping for to have a normal supply/demand scenario and have a normal production at 18%-20% EBITDA.

Gaurav Singh: Which would then mean that there should be no further capital deployment in the dyes and dye intermediates business and everything should mostly go towards others

Ankit Patel: Exactly. Even in the sulphuric acid derivatives plant that we are doing, we are doing a couple of specialty derivatives there also, that also in last about five to seven years has been a very, very strong business for us but it doesn't reflect much because it's a small portion for us and also about 50% is captive. But now with this commercial plant that we are setting up in Saykha GIDC which is again the hub of all these chemical industries at the moment and also the upcoming entire chemicals and agrochemicals growth is going to take place in this **(PCPIR) 72:19** only. So, we are setting up a plant there and I think that is also going to generate a good top line and bottom line numbers for us. I won't be surprised if we do 20% of EBITDA there also.

Gaurav Singh: Last question on this SPS Processors. You had problems around getting raw material to start this plant. Those problems are sorted now. You don't see that...

Ankit Patel: Everything is sorted, the plant has already started without any problems, but it is the batch type of plant plus the synergy with the H acid plant. So, I think in one or two months' time we should be able to cross 70% plus utilization of the capacity.

Gaurav Singh: At that capacity utilization, what profits can we get from that plant from a quarterly point of view from SPS? It's been running in losses for quite some time since you acquired it.

- Ankit Patel:** SPS, I think with this full year effect, the turnover can be 100 crores plus from this new capacity. I think it will be little less than our Gujarat plant. The reason is that some of the raw materials we have to take from Gujarat or Maharashtra area. And also the consumer points are also here in Gujarat mainly for exports. So, that additional logistic burden is there because the plant is in north India, but I would say we can I think do around 12% to 14% EBITDA level range there. Once this plant is set up, there'll be some savings, know there are some raw materials we are buying from outside, we are spending a lot of money on that, which will be available at free cost you coming from this new plant.
- Moderator:** As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you.
- Mayur B. Padhya:** With this, I conclude the call and thank you everyone for joining today on this earning call. For more queries, you can contact us or SGA team, our investor relation advisor. We wish you all a good day and a happy weekend.
- Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of Bodal Chemicals Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.