“I G Petrochemicals Limited

Q4 FY’23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to I G Petrochemicals Limited Q4 FY '23 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikunj Dhanuka, Managing Director and CEO from I G Petrochemicals Limited. Thank you, and over to you, sir.

Nikunj Dhanuka: Thank you very much. Good afternoon, everybody. I warmly welcome everyone on this call on behalf of I G Petrochemicals Limited. On this call, we are joined by our CFO, Mr. Pramod Bhandari and SGA, our Investor Relations advisor. I hope everyone had an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange and on our company's website. We will give a quick overview of recent industry developments and how IGPL is moving forward. Post that, Mr. Pramod will walk through the operational and financial highlights.

Industry overview. Over the decade, petrochemical industry has gone through a multi- phase transformation. The infrastructure and the ecosystem of Indian chemical companies have evolved rapidly over the last few years. In financial '23, the prices of many bulk and petrochemical products have remained unstable due to multiple headwinds and global uncertainties. Although many organized players with strong business foundations like us were able to sail through it. We are happy to say that our company IGPL has seen a marginal impact as a significant part of business and raw material sourcing is done within the Western belt of India.

Traditionally, phthalic anhydride has been used in industries such as paint, plasticizers and CPC pigments. However, over the years, its application have expanded widely to multiple industries. Today, phthalic anhydride is ingeniously used in production of plastic currency, paper boards, leisure boats, windmills, sails, aircraft wings and many more. It's important to note that this demand for phthalic anhydride is served by very few players like us.

I'd like to give a company overview. Our primary product is phthalic anhydride, and we have, not only pioneered in it in India, but also established a strong footprint in the global market. There are many facilities across the world that produce phthalic anhydride through the naphthalene route with dated technology, whereas IGPL is one of the few organizations that produce phthalic anhydride through the orthoxylene route, which produces high-grade as compared to the erstwhile route.

At our Taloja facility, we produced phthalic anhydride, maleic anhydride, benzoic acid and advanced plasticizers. At present, we have installed capacity of 2,22,000 metric ton per annum of phthalic anhydride. The plant is managed by a highly skilled workforce and adheres to all required protocols to meet high-quality standards. Maleic anhydride and benzoic acids are key by-product created through wash-water while producing PAN, the cost of producing these by-products is insignificant to us and reflects positively on profitability. Despite the market conditions, we are pleased to report positive momentum in our operational and financial performance during the quarter, driven by steady state demand for phthalic anhydride and other products, our DEP business is also growing very well. I would like to bring to attention that our non-phthalic business has grown by 42% to INR170 crores for this full financial year.

Coming to the capex and expansion update. Expansion of our phthalic anhydride at PA-5 unit is on track and expected to commercialize before March '24. This will add another additional 53,000 metric ton of phthalic anhydride and nearly 2,500 maleic anhydride, contributing to more than INR500 crores of revenue. In order to expand our business in downstream, specialized plasticizer and UPR, we are evaluating a couple of land options for the future leg of expansion. We will share the required details as things progress.

I'd like to add about I G Biofuels Limited. The Government of India has been pushing hard for strong energy security and low-carbon emission with a sustainable ecosystem, blending locally generated ethanol with petrol would improve India's energy security, allow local businesses and farmers to participate in the energy economy and cut vehicle emissions. We are delighted to inform you that our company will find a very interesting opportunity in the space and is looking forward to participate in the ecosystem. The company proposes to venture into biofuels, such as compressed biogas, base compressed biogas plants to maximize India's CBG potential. We will share more information on the same in the coming quarters.

Way forward, our long-term vision is to become a well-diversified chemical company while maintaining a leadership position in the phthalic anhydride industry. In the past 2 to 3 years, we have made some strategic decisions to meet the rising demand of our products. These decisions are a part of our holistic strategies aimed at providing a better value proposition for our business partners. We are well positioned to sustain the business momentum in time the financial year '24.

Given the company's strong performance, the Board has recommended a final dividend of INR10 per share to reward our shareholders. This is from my side. I will now hand it over to our CFO, to give you a brief on the financial performance of the company. Mr. Pramod, over to you.

Pramod Bhandari: Thank you, Nikunj ji. A very good afternoon to all the participants. I will quickly share the highlight of the financial performance, followed by which we'll be happy to respond to your queries.

For the quarter ended Q4 '23 FY23, total revenue, including the other income for the quarter stood at INR611 crores, a growth of 18% year-on-year basis, led by the better product mix. The EBITDA stood at INR70 crores, which is impacted compared to the previous quarter of last year, mainly due to the decline between the spread of OX and PAN, which is around $150 to $170 , some decline in the prices of maleic anhydride, and the repair and maintenance, which we have incurred during this quarter for shutdown of one PA unit due to change in the catalyst. The profit after tax stood at INR38 crores for the quarter.

From the financial year ended '23 , the total revenue stood at INR2,375 crores, which is a growth of around 26% year-on-year basis. The domestic market contributed around 80% to 85%, whereas the international market is around 10% to 15%. The revenue from non-phthalic business has contributed around INR170 crores, which includes the maleic anhydride, benzoic acid, the DEP and other income compared to the INR120 crores of last year, a growth of 42%. EBITDA stood at INR340 crores and net profit was INR200 crores.

Net profit is first 2 quarters were very good. And then third quarter was impacted, as you are aware of that. And then we have seen the recovery in the last fourth quarter. The overall business performance during the year has been strengthened our balance sheet and the cash flow. We are happy to share that our strong balance sheet position continued to maintain where our net debt stood at a zero level with a strong working capital cycle.

With this, I would like to conclude this presentation and open the floor for question-and-answer.

Moderator: Thank you. Our first question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Sir, I have 2 questions to ask. So one is, in your one of the remarks, you mentioned that globally some of the capacities have been running on the naphthalene and those are not that kind of efficient capacities, which we generally get while producing the phthalic through orthoxylene route. So my question basically is, once in our conference call, you have explained about the rationale of putting up an MA plan where the capital cost has been very high and this restricts a lot of players in terms of entering into the maleic anhydride market. So what can be the reason where the phthalic plans have not been coming up in large proportions globally?

Is this because of the availability of raw material as a constraint or the application wise, the demand has not been growing that way globally? Because here in India, if we see we are expanding, our competitors have been expanding. Even one of our customers has also been going upstream where he is putting up a phthalic plant. So if you can just help this in context of the global phenomenon, as well as why Indian players have been expanding here? If you can just explain in context?

Nikunj Dhanuka: You see the thing is that, number 1, in maleic anhydride, I would like to explain is that, the raw material for maleic anhydride is not available in India. There is no availability of butane to produce maleic anhydride, plus the capex to put up a maleic plant is very high. So that is the reason in India, there is no maleic anhydride capacity which have come in. Compared vis-a-vis to phthalic anhydride, the phthalic anhydride plants, which are there, there is a huge constraint on the raw material, which is orthoxylene and the only player in India or in this whole region, if you look at Middle East or whether it is in India, there's one producer, which is Reliance, which is producing orthoxylene.

There is no other producer which is there. One of the customers which have expanded in the phthalic business is finding it difficult to get the source of supplier of orthoxylene. And import of orthoxylene is almost 30% to 40% more expensive than the prices what we are getting out of Reliance. So this is one of the reasons that a lot of players which would like to expand into phthalic is finding it difficult to get into phthalic, plus for sure, the capex of a greenfield project to put up a phthalic anhydride is very high compared to the IRR, which comes out of the phthalic anhydride plant. Today, to put up a 53,000 tons of phthalic anhydride plant, we're looking at a capex of about INR600 crores to INR650 crores. And the IRR, which is there is in the range of about 12% to 15%.

So people over there see that there is no orthoxylene availability. So these are the constraints which are there, which is putting pressure on increasing the capacity and the players which are already producing phthalic anhydride are expanding the capacity to meet the local demand, which is there. As far as we are concerned, we are expanding our capacity and even Thirumalai, which is another producer is expanding and a customer has expanded phthalic capacity. So this will take care of the requirements which is there.

Globally, if you look at today, most of the PA producers which are there now are in Asia region, which is China, Korea and Taiwan. It has become uneconomical in Europe and America to put up these capacities because of capex and the non-availability of orthoxylene. So I hope I've been able to answer your question.

Nirav Jimudia: Yes. Sir, just a small clarification on this. So 1, how we would be able to secure our OX for our future expansion? And secondly, if you can, let's say, through various reports, if we read like globally, the capacities of phthalic is close to 6 million ton. So how much would be that would be on a naphthalene route? And how much would be that on OX route?

Nikunj Dhanuka: As far as we are concerned, we have been buying orthoxylene from Reliance from FY'98 onwards when they started their Ox production. So they have assured us that they will continue the supply to IGPL, even with our increased capacity. So we are totally secured to get our orthoxylene from Reliance. A balance quantity, which we need to import, there is a production capacity in Singapore, ExxonMobil, which is willing to supply to a small quantity to India.. Apart from that, we are exploring opportunities to see if in Middle East, there could be some orthoxylene production, which can be established. But this is a big challenge to ensure that orthoxylene production capacity can be increased in this region, which is there.

what was the second question you asked?

Nirav Jimudia: Sir, I asked about the split of capacities between the naphthalene and OX route?

Nikunj Dhanuka: So naphthalene, as far as is concerned, is a by-product of steel capacities. So wherever steel production is there, naphthalene can be produced. But as far as naphthalene is concerned, mostly in China, they produce some quantity of phthalic anhydride through naphthalene route. So out of the 6 million tons, there will be only 3% to 4% of production of phthalic anhydride is through the naphthalene route, because most of the steel producers do not want to venture into producing chemicals which are there. So they use their naphthalene in other uses, which is there.

Nirav Jimudia: Got it, sir. Sir, second question is on the operating costs. So if we see our quarterly results, if we add up your other expenditure as well as the staff cost, like it is close to INR65 crores, INR66 crores of run rate. One of the reasons you mentioned was the repair and maintenance we undertook in Q4 for our change of catalyst. So -- but sir, if we see over the last 1 and 1.5 years, some of the costs have gone up for us, and now the gas prices and the fuel prices globally have been coming down. So if there are some components of cost sitting in our expenditure where we feel that it has a scope for a downward revision because it has gone up for one time and now it is coming down. If you can just walk us through that?

Pramod Bhandari: Yes. So compared to the last quarter, the cost has gone up. There are 2, 3 reasons. The first is the shutdown. We have taken the shutdown twice during the last 1 year, which has increased the repair and maintenance expenditure. The second reason is, we need to provide, as based on the profit, maybe CSR expenditures that we also provide. There are only one component which added to the cost, which is not really there in the M2M charges. So basically, the last quarter and this quarter, we have provided M2M charges, which is based on the credit liability in terms of the debt, which we need to prepay to 10 years. So M2M charges are around INR8 crores to INR10 crores. If you remove that, more or less the charges, the FY '22 and FY '23 numbers are matching with each other.

Nirav Jimudia: Got it. So this Q4 includes this one-time charge of INR8 crores to INR10 crores, right?

Pramod Bhandari: Correct.

Nirav Jimudia: Okay. And all the best to the team.

Moderator: Thank you. Our next question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.

Aditya Khetan: Sir, my question was on to the non-phthalic business. Sir, this year, FY '23, we had clocked a top line of around INR170 crores from the non-phthalic business. This is almost 7% of the total revenue. But I believe, sir, we have a target of taking this to around 25% to 30% by the next 2 years. And we haven't outlined any sort of a big capex into the downstream businesses. So does that guidance hold or now are we revising that from the non-phthalic business?

Nikunj Dhanuka: I would say that we hold what we are saying because we are today in the verge of completing our feasibility study of the downstreams of phthalic anhydride, which is a plasticizer and other businesses, which the phthalic business is concerned. And we are embarking on getting into sustainable products, which are more on the biofuels. And as you can see that the government is saying that the sustainable fuels and energy to be produced, which we are evaluating. But I would say that more or less, the feasibility study has been done, it's just a matter of executing these projects, which are there now. So this will, in the next 2 years will basically diversify the company into other products other than phthalic more than 20% to 30%.

Aditya Khetan: Okay. Sir, just a follow-up on this. So considering your advanced plasticizers expansion, that would add another only around INR80 crores to INR90 crores to your top line with the expanded capacity also, if we go ahead. Apart from that, you are venturing into biofuel. So it seems that from the current levels of 7%, 10%, taking it to around 25%, this investment would likely be very big into biofuel.

Nikunj Dhanuka: I would like to correct you that the downstream which we are looking at on the phthalic anhydride business, which is a advanced plasticizer business, that will actually add INR1,000 crores to INR1,200 crores revenue to the company. It's not about INR90 crores. Currently, what plasticizer we are producing is going to bring in the revenue of about INR90 crores. But we are looking to open a new site, which will add another INR1,000 cores to INR1,200 crores on the plasticizer business and the downstream of phthalic and maleic anhydride business.

Aditya Khetan: So this is also would be completed by FY '25 or, because we have not stated any sort of this expansion yet on advanced plasticizer of INR1,000 crores.

Nikunj Dhanuka: So basically, the thing is that, the company is very clear that we are going ahead with these products. We have already done advanced study on the products, which we want to get into. It's a matter of time, and it takes about 16 to 18 months to get the production up and running. So we expect that by FY'25, for sure, we will be in production for the plasticizer business.

Aditya Khetan: Got it. Sir, my second question was on this quarter. We have witnessed almost 17% jump in top line on quarter-on-quarter basis. So this is largely led by volumes or realization? Then what would be the spreads for the quarter, which we had reported for this quarter?

Pramod Bhandari: The revenue has gone up because of the higher quantity of the products sold. And basically, the other income includes the maleic and benzoic acid and DEP. So another reason is the DEP, which was earlier operating at 30% to 40%, now we are able to achieve 80% to 85% from DEP. So overall income has gone up from INR524 crores to INR611 crores.

Aditya Khetan: And sir, also the spread part, what should be the spreads for the quarter?

Pramod Bhandari: Spread, actually for the quarter is between $150 to $170 compared to the last quarter, it is almost $5, $10 here and there.

Aditya Khetan: I believe in the last quarter, we have stated that so during that month, I believe in Jan or Feb, that time, the spreads were around $200. And then quarter-on-quarter, your performance has improved

Pramod Bhandari: Last quarter it was around $140 to $150. This time, it is $150 to $180.

Aditya Khetan: Okay.

Pramod Bhandari: Because spread is something which is changing every month and every 15 days. So when you take the average, you will get $180 to $200. But every quarter, every month, or 15 days, it is changing. So we are just talking about the average spread for the quarter. Jan and Feb bid was not good, but Feb end and the March was good. Right now, spread is around $200.

Moderator: Thank you. Our next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, in the last 1.5 years, you've seen our margins fall very sharply. So what is your outlook that when can we see our margin uptick?

Nikunj Dhanuka: You see the thing is that, what you saw a few quarters ago that the margins had really gone up drastically, that was something which is not sustainable. Those kind of margins where we were getting 300-plus conversion. We expect the industry to get a margin which is between $150 to $200. And that is what we are basically basing our profitability, which is there. In the industry, if there is some kind of unforeseen or some plants are closed, you might see a spike on that margin going to $300 to $400.

But we must look at that $150 to $200 is a good margin to operate a world-scale phthalic anhydride plant. So it is very difficult to say that we will see margins of $300 to $400, which can never be predicted. But as far as the current margins that we are running at, I think it gives us a good IRR as far as $150 to $200, and because of the economy of scale and our efficiency, we are making decent returns on our capital employed.

Bhavesh Chauhan: Yes, I got that, sir. And sir, on our biofuel expansion, if it is not correlated to our existing business, one, should we assume that in our existing business, we don't have any scope of doing further capex and growth, and hence, we are venturing into something that is very much kind of kind of unknown to the company?

Nikunj Dhanuka: There are 2 things. Number 1 is, I'd like to state is that, as far as the current business is concerned, we are expanding into a downstream products which are there. So that will actually create more value addition, which up until now, the company was nearly a phthalic producer, a sole phthalic producer. With the downstream, it will actually be more value added. The reason for us to diversify into these products, biofuel is because today, we see an opportunity, and there is a huge demand for the sustainable products, and it will make the company more ESG and sustainable going forward,which will actually get a better multiple and the company will be seen as a more of a zero-carbon company in the coming years. So that the whole concept is to drive and take the advantage of what is happening in the industry as far as biofuels are concerned. And this will actually take away from the fossil fuel into products which are more green and made out of food products..

Bhavesh Chauhan: Sir, but is there any correlation between existing business and that business? How are we, I mean, competed in that new business? Or is it more of an experimentation for us?

Nikunj Dhanuka: As far as we are concerned, we know that the downstream products which are there, which once we put in that with the strong cash flow and the balance sheet, which we have, we still feel that there is more room to expand into a more diversified industry. And we expect that the biofuel business which is just at the very tip of the growth . So we feel that if we are able to source the raw material for the biofuel, then the demand for these products are in India is going to only grow because the government is now asking all the fuel to be added ethanol, which is about 20%. And going forward, it could even increase, looking at Brazil, they add 50% of ethanol.

And a lot of other areas like today, the ships which are there, their engines are now running at 100% ethanol. So we expect the ethanol consumption in India to continue to grow. So we are looking at getting into businesses where we expect huge growth. It is only a question of sourcing the raw material, and that is where the key strength will be. So if we are able to source the raw material, then I think to operate the plant and to sell the product is very easy in India.

Bhavesh Chauhan: Okay. And sir, lastly, then, if we are expanding downstream products, then should our margin get a lift in FY '25 because of that?

Nikunj Dhanuka: Pramod, can you highlight on those numbers?

Pramod Bhandari: Basically, just to add what Nikunj ji has said, we, as a company, are a chemical company. DNA is chemical. When we are looking at ethanol and biofuel, we are looking at the downstream chemistry of that particular product. And when you are talking about the downstream of phthalic, we are looking for the various derivatives, including the plasticizer and that will add to our overall margin because that will be a complete integrated facility where the phthalic, plasticizer and other derivatives will be available seamlessly. So it will add definitely to our margin.

Bhavesh Chauhan: Yes, I got that. Sir, coming back to our ethanol expansion, I think there are a lot of players who are expanding the capacities in a big way. So we'll be directly competing with them, right?

Nikunj Dhanuka: We are looking not only producing ethanol for fuel. As Pramod said that, we are going to produce ethanol, and we are even looking at downstreams of ethanol as chemicals, So we won't be totally reliant on selling ethanol to the oil companies, but we are looking at producing chemicals out of ethanol. And that is something which we are working today with some of these labs in India try to see what other chemicals can be produced out of these biofuels which are there.

Going forward, I feel that the world is going more towards sustainable products.. And there is 20, 30 people are talking about countries to get into more green, products that are going to come in demand. So we feel that, that is a trend towards getting into more greener chemicals than producing from chemicals out of fossil fuels.

Moderator: Thank you. Our next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead.

Yogesh Tiwari: Yes. Sir, just wanted your thoughts on the near term. So our new capacity will come in around March or before March '24. So what would be the drivers for the growth in the current financial year for FY '24?

Pramod Bhandari: So basically, in FY '24, it will be similar to what it has been the last year. The only thing which has changed is our DEP, which was operating at around 30% to 40% will be at around 80% to 90%. Right now, we have seen the slightly decline in the margin. The main reason is, not only the phthalic, but also the maleic prices has gone down drastically, 40% to 50%. If there is a reasonable amount of increase in the maleic prices and the full capacity utilization of DEP, we will be able to see a slightly better performance for this year compared to the last year. Otherwise, the true performance will come in FY'24-'25 when we have the new phthalic unit starting operation, along with the maleic and the benzoic acid, which will add around roughly INR500 crores to the revenue.

Yogesh Tiwari: Sure, sir. So just an approximate number, like we did about INR170 crores of non-phthalic. And if we like maybe 40%, 50% growth on non-phthalic going forward in FY '24 as well. So approximate the top line can grow between 10% to 12% until that is about additional INR230 crores, INR250 crores on the current topline . So about 10% to 12% growth we can expect mostly coming for non-phthalic.

Pramod Bhandari: Correct.

Yogesh Tiwari: And sir, on the margin side, so if I assume a spread of $150 to $170 currently, which is currently can we maintain similar margins which we had in Q4, operating margins?

Pramod Bhandari: I think slightly better than that, if the maleic prices improve, our run rate will be around INR40 crores to INR50 crores because right now, the maleic prices are around 50% to 55% of the actual prices. Historically, the maleic prices are 10% to 20% higher than phthalic this time, probably the last 1 year, that maleic prices are 20% lower than phthalic. That is the reason the overall revenue from the other income, as well as the margin has got impacted. So when it is balance it out, you will see the similar performance which we are maintaining over the last 8 to 10 quarters.

Yogesh Tiwari: Sure, sir. And in terms of the shutdown which we had, I think so this was related to the catalyst change. So that cost would come in this other expenses of INR44 crores, INR45 crores?

Pramod Bhandari: Some in other expenses and some in the energy cost.

Yogesh Tiwari: Okay. And sir, lastly, on the biofuel, which we are acquiring. If you can share some details regarding the capacity? And like when are we going to ramp it up? And what would be the potential out of it some details on those lines?

Pramod Bhandari: So I think we are evaluating this opportunity, it will be too early for us to comment on that. We need to wait for probably 2 or 3 quarters before we completely coming up with the plan in terms of the capex and the setting up of the project. Right now, it is in the evaluation stage. It will not be correct for me to comment on this.

Yogesh Tiwari: Sure. So we can expect some announcement in the next 6 months?

Pramod Bhandari: Six to nine months.

Moderator: Thank you. Our next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Sir, I just wanted to know what is the capacity utilization for quarter 4 and FY '23 for our PAN and MAN segments?

Pramod Bhandari: For PAN, it's 90% to 91%. And for MAN, it's 88% to 89%.

Vignesh Iyer: And this is for the entire year as in or quarter 4?

Pramod Bhandari: Almost same, there is no difference, except the shutdown.

Vignesh Iyer: Okay. I got it. And when was this shutdown initiated as in, which quarter of the year?

Pramod Bhandari: It was in Jan, which last for around 25 days.

Nikunj Dhanuka: This was for the catalyst change.

Vignesh Iyer: Right,. So just coming to the biofuel part. We don't have any internal working as to how much capex we are planning to allocate to this segment as a whole, right? any internal working as to rough estimate as to what we are planning to commit?

Nikunj Dhanuka: As what Pramod said that we are evaluating, and we've got agencies which are working on providing us the information on what the market size is, what the government is looking at on the products which are there. And the most important to really put the size of the capex, it all depends on the raw material availability because the biofuels are going to be produced through rice husk or maybe the molasses which are there. So the availability of the raw material is a key factor to decide what kind of capex we would like to invest into biofuels.

Vignesh Iyer: Right. So just to understand it, I mean, the ethanol segment is kind of crowded as of now. I mean, if we are planning to just sell ethanol to the oil companies.

Nikunj Dhanuka: No. Our focus is not to produce ethanol and to sell to the oil companies. Our focus is to produce ethanol through the rice husk or molasses and then produce further downstream chemicals to create added value.

So we have identified that there are a number of chemicals which can be produced, which can become green chemicals. It would go into more on the green chemical side. So that is where we are trying to focus on taking the company towards more on the green chemical side which is what we are working on.

Moderator: Thank you. Our next question is from the line of Pankaj from Affluent Assets. Please go ahead.

Pankaj: Sir, you mentioned about the prices of maleic are subdued, almost half of what they should be. So what could be the triggers for a rally in the price? How are they supported? What defines the prices for maleic as well?

Nikunj Dhanuka: You see in India, there is no maleic producer, out of the only maleic producers is IGPL, and that even maleic is produced of our affluent of phthalic anhydride. The supply, which is there, the most maleic production is happening in China. So when China has an oversupply of maleic anhydride, then there is a demand and supply gap. So basically, what has happened is that, there is a huge supply from China, the maleic which goes into making downstreams, there is an impact on that industry, which has actually reduced the prices of maleic anhydride. So in India, as far as we are concerned, we do not buy any raw material.

Our raw material cost is 0 to produce maleic anhydride because we are using the affluent of PA,. And the total production, which is there, whatever we produce comes directly into our EBITDA margin. So with the prices of maleic being subdued, our EBITDA margins have reduced accordingly. But we expect that it's very difficult to predict that because we do not get too much of information on the demand and supply on the Chinese, because they do not give too much of information about what is happening in China. And due to that, it is difficult to say that what are they going to decide on their supply and demand situation on maleic. So the entire maleic margins which are based on the supply and demand from China.

Pankaj: In near term, you still expect the prices to be subdued?

Nikunj Dhanuka: At the moment, it looks like that the prices are going to remain where it is right now. Because the oil prices are also not looking that it is going to go up in the near future. So with the oil prices remaining more stable or continuing to the levels where it is, we feel that the prices are going to remain at these levels right now, unless until there is a spike on the raw material prices, which is oil and the gas prices. Then there could be a price revision on maleic anhydride.

Pankaj: So going forward, which are the products which we produce we have some pricing power? As I understand most of them are commodities than PAN or MAN.

Nikunj Dhanuka: So the reason is that, the company, which is there, over the years, has made its balance sheet very strong. We have got a good cash flow. Our capacity is one of the largest capacities in the world, and it's more efficient. So now with the cash flow and the balance sheet strength, we are looking to diversify into value product specialty chemicals, downstreams of phthalic anhydride and maleic anhydride, which will add value and even go towards the ecosystem of more on the green chemical side, which will be then moving from the commodity into higher margin business.

Pankaj: So currently, we are having 5% to 7% of our revenue coming from non-phthalic side, right? So going forward, say, 2 years, 3 years down the line, where do you see the scenario?

Pramod Bhandari: In the last conversation, we already mentioned, we mounted around 30% of revenue is coming from non-phthalic product, which includes maleic anhydride, benzoic acid, DEP and other downstream plasticizers and derivatives. We are continuously working on this, and all the things we are finalizing, we're just waiting for the implementation of the project. Once the project will be there, it will add around INR1,000 crores to INR1,200 crores revenue, which we will seize at 25% to 30% revenue coming from that side, which is non-phthalic product. Apart from that, we are evaluating the opportunity in the CBG, CNG blending of ethanol and the downstream chemicals, that will further added. Our ultimate objective is to diversify more than 30% to 50% of the business from non-phthalic revenue.

Pankaj: Two to 3 years down the line, say, from INR2,300 crores, INR2,400 crores of top line, do you expect to reach INR4,000 crores or INR5,000 crores of top line.

Pramod Bhandari: Between INR4,000 crores or INR5,000 crores.

Pankaj: And what would be the EBITDA margins?

Pramod Bhandari: That I would not like to comment, but I think that will be in the similar range what we are making today or better than that.

Pankaj: So, even, this 14%, 15% or 20%, 25%?

Pramod Bhandari: I think it's not right to comment because the margin vary between 15% to 25%. For some of the product, margin will be, say, 15% to 20%. For some of the products, which will be linked with the phthalic will be fluctuating between 15% to 25%.

Moderator: Our next question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: So, sir, you mentioned about putting up a downstream of phthalic where the size of the opportunity or the turnover for us could be INR1,000 crores. So, are you also like thinking of putting up another phthalic plant because then phthalic again would be required for this downstream? Or will we be utilizing our existing phthalic for the downstream?

Nikunj Dhanuka: We will be utilizing our existing phthalic. Downstream means going into value-added products of phthalic and maleic, we are not evaluating another phthalic anhydride business because currently, there is one plant, which is under construction, which we expect to complete it . And so, right now, there is nothing on the cards of putting up another PA business.

The reason is, again, coming back to what I mentioned earlier, today to evaluate to put up another phthalic anhydride plant. The most important is to source the orthoxylene, which is becoming a major constraint going forward. So anybody evaluating has to ensure that it's able to tie up its orthoxylene requirement.

Nirav Jimudia: Got it, sir. So then probably some part of our volumes each we currently sell in the domestic market of phthalic could be used here in terms , , consumed within our range. And sir, let's say, hypothetically, though it's on the evaluation stage, but let's say, typically, if one wants to achieve INR1,000 crores of sales for a downstream. How much size of downstream capacities which are required to achieve this sort of sales?

Nikunj Dhanuka: So it depends on the product mix, which we are looking at. So at the end of the day, it's not right to say that we will achieve INR1,000 crores. It could even be a higher number or could be a lower number. But the question is that, today, if IGPL is looking to put up a plant, we look at what the economic size and the world-scale capacity is, which is there. We do not want to put up a small-scale plant or any where we feel that we will not be able to compete with other players which are there in the industry. So if we are going to go ahead and put up any downstream plant, we will put up a world-scale or economic size plant. And we feel that looking at the product mix which we have, we should be able to achieve INR1,000 crores to INR1,000 crores-plus revenue from the downstream products.

Nirav Jimudia: Got it, sir. And sir, a small clarification on our cash flow statement. So we have invested close to INR250 crores as per what is visible in our cash flow statement. So - majority part has been, I believe, had gone for our INR350 crores expansion for the new phthalic plant. So how much is still left to be spent on that? And is it safe to assume that what you just spoke about in terms of the downstream of phthalic. So the amount of cash flows we generate would be sufficient enough for this sort of expansion or we need to borrow something for this, just a small clarification, sir?

Pramod Bhandari: So we have already spent around INR278 crores on this expansion and planning to complete between INR350 crores to INR355 crores this expansion. We have tied up a debt of around INR200 crores. On that, we have already drawn INR114 crores, and we have spent around INR125 crores of equity. So right now, we are using all our internal accruals on month-to-month basis to fund the project. We are drawing the debt as and when required. And we believe that the INR200 crores debt which we have tied up, we will not be drawing the entire debt. We will be putting more equity into that project, and that will be drawn only to the extent of requirement.

Nirav Jimudia: Okay. Got it. And for the downstream, if you can just clarify something on the capex, but that would be very helpful, sir.

Pramod Bhandari: So I think downstream, if we are talking about downstream plasticizers, it would cost between INR150 crores to INR160 crores, which will add around INR1,000 crores to INR1,200 crores of revenue. And that will be also over the period of 12 to 18 months.

And the company has a sufficient cash balance on the balance sheet. As on March, it was having INR360 crores of liquid bank balance, and cash and investments. So we have sufficient cash balance for all the expansion which we have planned.

Nirav Jimudia: Got it, sir. And all the best.

Moderator: Thank you. Our next question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: My first question was related to capex only. So what is the FY '24 numbers we are targeting?

Pramod Bhandari: FY '24, we are targeting around INR120 crores to INR130 crores for the phthalic plant, which is to be completed by March 2024. And for FY'24-'25, based on the project finalization of downstream plasticizers and downstream products and other projects, we have not yet come from the number or it is under evaluation stage for the CBG and ethanol. For the plasticizer, between INR150 crores to INR160 crores is expected, but yet under review.

Giriraj Daga: Okay. And what is the gestation period of this plasticizer plant?

Pramod Bhandari: Plasticizer generally take 15 to 18 months to set up the plant.

Giriraj Daga: Okay. The CBG plant, what is the kind of thought on the gestation?

Pramod Bhandari: For the CBG plant, it will be too early. We are just evaluating the opportunity and probably in the next few quarters, 2 to 3 quarters, we'll be able to provide you more details on that.

Giriraj Daga: Okay. Related question, would it be open to some inorganic also on this side CBG side?

Pramod Bhandari: Yes. All the downstream, which is the ethanol, CBG were open for organic and inorganic, both.

Giriraj Daga: So in the opening remark, we mentioned that the INR600 crores to INR650 crores capex is required for the greenfield plant.

Pramod Bhandari: For phthalic anhydride?

Giriraj Daga: Yes, for phthalic, right? For the capacity number was mentioned was 80,000 tons, right?

Nikunj Dhanuka: So basically, 53,000 tons, if you go for a greenfield project, it will cost you about INR600 crores to INR650 crores.

Pramod Bhandari: Yes.

Giriraj Daga: Okay. Somewhere we had also announced.

Nikunj Dhanuka: From 53,000 tons to go to 80,000 tons, there will be a marginal cost increase which is there because you just need to increase the size of the reactor and maybe some the distillation cost, which is there. So it doesn't go up drastically as far as the capex is concerned from 53,000 tons to 80,000 tons.

Giriraj Daga: Okay. Last 2 more clarification. On thePA-5, we mentioned that the capex of INR350 crores, and we have spent was INR 278 crores, you are still mentioning INR120 crores to INR130 crores is pending. So is there some cost escalation on the capex?

Pramod Bhandari: No, no. We have spent INR240 crores. That is INR114 crores, equity is INR125 crores. And INR110 crores, we will spend that will be totalling INR350 crores. Why it is INR350 crores compared to INR600 crores because all the utilities, the land and other supporting unit are already forming part of that complex. They are already operating 4 plants. That's why we are able to conclude it in INR350 crores. Somebody putting the greenfield, the same plant will cost around INR600 crores. That is what our MD has mentioned.

Giriraj Daga: That I understood. I just look at the remaining number. I had mentioned the number INR278 crores in my notes.

Pramod Bhandari: No, no. INR115 crores debt, INR125 crores equity, INR239 crores or INR240 crores and then INR110 crores yet to be spent in this year.

Moderator: Thank you. Our next question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.

Aditya Khetan: Sir, I had a question on to the imports of phthalic anhydride. Sir, I was taking the government data for imports of PAN and for the month of March 2023, there were imports of roughly around 12,000 tons for that month. So suppose if that continues, this 12,000 ton imports of PAN for the next 12 months, that would be roughly around 2.5 lakh tons of imports of PAN and the total demand is around 5 lakh tons. So 15% import so do you foresee this can happen or the number would be much lower on that?

Pramod Bhandari: No. I think you can't extrapolate that. For the quarter, it was 20,000 tons, for the quarter ended March. For particular month, it is not relevant. It's better to look at the quarter, number 1. Number 2, existing player who is setting up the plant is importing in a heavy quantity. Once they start their plant, of course, the Indian overall import will go down. So typically, we assume between 6,000 to 8,000 tons or 1 lakh ton per year is the import happening, which will gradually go down once the plant will start.

Aditya Khetan: Sir, for this import figure also, sir, this 12,000 tons for March, we have seen that the prices of PAN have been consolidating at the higher levels, means they are not going up and not going down.

Pramod Bhandari: Correct.

Aditya Khetan: Because of these large imports, so the prices would remain in that range or you feel that ?-

Pramod Bhandari: Prices has no correlation with the import. Prices has the direct link with the demand and supplies from the global market. The last quarter, the import was 20,000 tons. Before the quarter, it was 17,000 tons, before that was 22,000, 23,000 tons. So I think import in India is typically happening at around 8,000 to 9,000 tons, which we believe will gradually go down because another player who is importing setting up the plant.

Aditya Khetan: Okay. And, sir, on the import side, so roughly around 50%, 60% would be South Korea only?

Pramod Bhandari: Not exactly because I think some of the unit at the Korea has shutdown. So import from the Korea has gradually gone down. I think Taiwan and China is number 1 and 2 for the last year.

Aditya Khetan: Okay. And sir, on to this advanced plasticizer expansion. So when would be the timeline when we would be announcing this capex because we have not yet announced. And second, on to this front, if suppose we expand by this size in advanced plasticizer. So considering our PAN, post expansion also, suppose the current expansion from 2.21 lakh tons to around 2.8 lakh tons. How much of this would be used for downstream only from this 2.8 lakh tons to manufacture this INR1,000 crores of advanced plasticizers?

Pramod Bhandari: So whatever is the expansion we are planning, 53,000 tons, more or less here to there or slightly higher than that will be used because plasticizers typically need 40% to 50% of phthalic. Suppose we are setting up X capacity. The 40% to 50% of that phthalic will be used. New expanded capacity will be sufficient.

Aditya Khetan: The overall 2.8 lakh tons of 40% to 50% of phthalic will be used, downstream.

Pramod Bhandari: No. I'm talking about 53,000 ton expanded capacity will be mostly used for the purpose of downstream plasticizers.

Aditya Khetan: And that would fulfil the complete requirement of time for DEP?

Pramod Bhandari: That depends upon the capacity we are setting up. That we have not discussed yet. Once we finalize that, we'll come back on that. If the capacity is 1 lakh ton, then it requires 50,000 tons. If capacity is 150,000 tons, it requires 65,000 to 70,000 tons. I'm just giving you an example, the ratio. Ratio will depend upon type of plasticizers we are producing, and it vary between 40% to 50% of the phthalic used.

Aditya Khetan: Okay. So sir, just one is supposed to manufacture a 1 ton of DEP, you would be requiring how much tons of PAN quantum more than that?

Pramod Bhandari: 62% is the PAN and then around 38% is the 2EH one type of plasticizer, different, different type of plasticizers have different, different percentage.

Moderator: Thank you. That was the last question of our question-and-answer session. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir, for closing comments.

Nikunj Dhanuka: So Indian chemical industry is extremely diversified and produces nearly 80,000 tons -- 80,000 chemicals in a year. The Indian consumption story remains intact as for the capita consumption of various goods and services is still very low. Consumption of chemicals will go only north and responsible and highly compliant companies like us are prone to gain. Our company is expanding our product basket and will be ready to seize these opportunities by leveraging our expanded production capacity of PAN and downstream products. We are also excited to move forward with the new business ventures in Biofuels. With this new business, we will be reaching out to new clients and providing them with a strong value proposition.

With this, I conclude the call, and would like to thank everyone for showing interest in our company. For more queries, you can write to us, e-mail or contact SGA team , our Investor Relations advisors. We wish you all a good day ahead. Thank you.

Pramod Bhandari: Thank you. Bye.

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