"Bodal Chemicals Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Bodal Chemicals Q3 FY2019 Earnings Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dipesh Mehta from SBICAP Securities. Thank you and over to you!

Dipesh Mehta: Thank you Mohsin. Good afternoon everyone. We at SBICAP Securities are plays to host Q3 FY2019 earning conference call of Bodal Chemical Limited. We have with us the senior management team of Bodal Chemical represented by Mr. Ankit Patel, Executive Director and Mr. Mayur Padhya, CFO. We will begin the call with opening remarks from the management followed by Q&A session, so without much further ado, I would like to hand over proceeding to Mr. Ankit. Over to you Sir!

Ankit Patel: Thank you very much. Good afternoon, everyone. Thank you for joining Q3 FY '19 Conference Call of Bodal Chemicals Limited. On today's call, I have our CFO Mr. Mayur Padhya with me as well. I hope all of you had got an opportunity to see our financial results and analyst presentation filed with the stock exchanges and we have also uploaded on our company website.

I will start with highlighting the quarterly performance and overall business strategy, and detailed financial performance will be taken up by Mr. Mayur later on.

As most of you are aware, the last quarter was impacted by plant shutdown due to planned prevention maintenance schedule, environmental aspects, sudden fall in crude prices and decline in average realization of H-Acid and Vinyl Sulphone. However, our operations have remained consistently good. Today, sales grew by 9% year-on-year basis, while EBITDA grew by 9%, with EBITDA margin steady at 17.3% showing the strength of our integrated business model.

Total exports are up by 78% year-on-year basis and its percentage in sales has increased from 28% in Q3 2018 to 47% in Q3 2019.

SPS posted loss in this quarter mainly due to decline in H Acid prices. We are consistently working on improving the performance of the company.

Production at Trion has picked up and performance improved mainly due to the decline in raw material prices and stable finished goods prices. We are confident that it will break even soon.

On the capacity expansion front, we are on track to further expand the Dyestuff capacity by 6000 tons per annum by next quarter. By this, our total Dyestuff capacity will expand to 35000 tons per year, which will further strengthen our integrated business model.

Further, our expansion of thionyl chloride capacity of 36000 tons per year is near completion and should start production in current quarter. This plant will be backward as well as forward integration, so it will support improvement in margins as well going ahead.

We have recently incorporated two fully owned subsidiaries, one is Bodal Chemicals Trading Private Limited in India, and the other one is Bodal Chemicals Trading Company Limited in China. Due to no growth for reduction in the production of dye in China, there is an opportunity for Bodal to sell its products to China, which can be best serviced by locally incorporated company.

We believe this was one of off quarter due to reasons, which I mentioned earlier. Going ahead, we remain confident of improving revenues and margin profile backed by several initiatives, which we have taken, and we remain confident of our long-term growth prospects of the company.

Thank you, and I would now request Mr. Mayur to take up the financial performance in detail.

Mayur Pandhya: Thank you, Mr. Ankit. Good afternoon to all. Let me take you through financial highlights for the quarter from our financial presentation.

Figures mentioned are on standalone basis. Slide 10 covers the quarterly highlight of the company. During this quarter, total volumes have remained flat year-on-year, mainly due to plant shutdown, as mentioned by Ankit bhai. The production volume in Dyestuff grew by 3% year-on-year, while Dye Intermediate production declined by 14% and Basic Chemicals production remained flat.

Our exports grew impressively by 78% year-on-year from Rs.857 million to Rs.1529 million. Our operational revenue grew by 9% from Rs.3041 million to Rs.3315 million. Our EBITDA increased by 9% from Rs.526 million in Q3 FY2018 to Rs.5074 million in Q3 FY2019. EBITDA margins stood consistent at 17.3% for the quarter.

The net profit grew by 4% to Rs.316 million in Q3 FY2019 from Rs.205 million in Q3 FY2018. The finance cost has increased in Q3 FY2019 to Rs.26.5 million due to increase in average utilization of limits. In Q3 FY2018, the utilization was low due to funds temporarily available from QIP.

Slide 12 provides sale of product mix for the quarter. Share of export increased year-on-year during the quarter to 47% from 28%.

Coming to our subsidiaries, SPS has posted loss of Rs.18 million during the quarter, mainly due to decline in H-Acid prices. Trion posted loss of Rs.15 million during the quarter. In Trion, production has picked up and we believe it should achieve the breakeven soon.

Slide 21 and 22 provides the management comments on results and updates. Thank you, and now we welcome your queries on the performance of the company.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We will wait for a moment while the question queue assembles. We have a first question from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Sir, as you said that the current year production, I mean, was flat year-on-year. Sir, if you can help us in giving the breakup in terms of the numbers of Dyestuff, Dye Intermediates absolute number as compared to the last year?

Mayur Pandhya: We have already given in presentation.

Jatin Damania: In the presentation, you have not given the volume breakup. I am talking about the volume breakup. We have a volume of 46798. So I am looking at the breakup in terms of the volumes.

Mayur Pandhya: You mean to say product wise?

Jatin Damania: Yes.

Mayur Pandhya: Product wise, it is a management decision, we are not disclosing, considering the information being, may be used negatively by competitors or something, it is a trade secret kind of thing.

Jatin Damania: Okay, so that is fine, but Sir coming to your Trion thing Sir, till last quarter we are said that we will be achieving a break even by end of FY2019, so what are the scenario, do we continue to see that the Trion will continue to report loss for another couple of quarters and then FY2020 will achieve a break even and how was the scenario out there?

Mayur Pandhya: See things are improving, earlier 7, 8 months there was no production, but since last four months or so production is there regularly and we are hoping about 350 metric tonne per month we can produce going ahead and if it is there for more than three, four months we should be near to break even.

Jatin Damania: So that means for break even we require 350 million tonnes of the average production monthly for next three, four months right?

Mayur Padhya: Yes. Considering the current prices of raw material are also fluctuating, but considering current prices, yes, your assumption is correct.

Jatin Damania: So that means, it is safe to assume that by first half of FY2020, if the situation continues, then only we will be able to break even. If raw material price goes upwards, then it will further...

Mayur Padhya: There can be some negligible loss can be there.

Jatin Damania: Okay. Sir, and on the SPS, you were supposed to start the VS facility, what is the position of that?

Mayur Padhya: VS, as we mentioned earlier, the permission from explosive department, Nagpur is pending. So even in that front also, earlier the matter was standstill, but within last 15 days, some positive movement is there and file is, once again, being viewed by the authority, which has changed now. Earlier authorities have given signal that we are not going to approve, but now they have considered, and they have given some queries, which we are satisfying. But that requires a longer process. So once they give us query, then we will satisfy, then they will approve the design, then manufacturer will prepare the tank according to that, then that tank needs to be verified as per design by a third-party consultant, then that report we need to submit to them and then once again, they will review it. So it is a longer process, but yes, positive movement is there. And we are hoping H1 or next quarter, we should be able to start this production.

Jatin Damania: H1 next year?

Mayur Padhya: Yes.

Jatin Damania: Sir on the pricing front if you can help us in getting with the prices of H-acid and VS during the quarters and what are the prices currently?

Mayur Padhya: See, H-Acid, last year, average was Rs.251, and Vinyl Sulphone last quarter's average was Rs.406. Presently, Vinyl Sulphone is trading at about Rs.240 to Rs.245, and H-Acid is being traded at present Rs.390 to Rs.400.

Jatin Damania: So that means that the probability with the TC coming in, I mean thionyl chloride coming by the end of this financial year and the expansion of Dyestuff is also going to come by in the next quarter. Can we safe to assume that the margin because of the lower realization will decline from 7, I mean 16.5% which we reported?

Mayur Padhya: I could not follow your question.

Jatin Damania: Is it safe to assume because of the decline in the prices, I mean, the H-Acid and the VS, the margins will likely to remain under measure in the coming quarters as well, being a seasonally weak quarter?

Mayur Padhya: The current quarter as mentioned by Mr. Ankit there have been several issues. There was a plan under maintenance shutdown. There was some shutdown because of environmental issues, sudden inventory loss because of sudden price down in crude. All this were one off event, so that is not going to be there in the next quarter, so from next quarter it is safe to assume that we will back on track.

Jatin Damania: Sir what were the environmental issues during the quarter if you can give?

Mayur Padhya: That we have discussed in the last quarterly call also. There was some ammonia leakage and because of that GPCB had given us closure.

Jatin Damania: Is that issue resolved?

Mayur Padhya: It is almost resolved yes resolved.

Jatin Damania: If I have any further questions I will get back on the queue. Thank you.

Moderator: Thank you. We have our next question from the line of Saravanan Viswanathan from Unifi Capital Private Limited. Please go ahead.

Saravanan V: Thanks for taking my questions. Last financial year when did the plant shutdown take place which quarter?

Mayur Padhya: It was in current year. Last year, plant shutdown was near Diwali. So it was in third quarter itself.

Saravanan V: Sir last year also it was in Q3 only?

Mayur Padhya: Yes.

Saravanan V: Means that might not have caused us a very big impact?

Mayur Padhya: Yes. Sulfuric acid shutdown, there is not a big impact. But last year, what had happened, last year, Q2 was down because of the GST implementation. And demand got delayed and Q3 was better compared to our expectation. So when we compare better number with this little bit lower number, we feel that it is not that good, but otherwise, we are on track.

Saravanan V: Okay. What were the other specific reasons? One is this plant shutdown, what were the other reasons that you attribute? Can you just take us through those aspects?

Mayur Padhya: See, last quarter, there had been a sudden price down in crude, and our majority of the raw materials are linked to crude. So when there was this sudden price down in crude, our raw material prices have also crashed suddenly, and there had been some inventory, which was lying with, our factories as well as some were in pipeline, like aniline oil, we were importing. So the import already this time is more than 1.5 months. So that much inventory was there that leads to some lower in profits.

Saravanan V: So inventory markdown, basically?

Mayur Padhya: Yes.

Saravanan V: Because typically there are some pass through's right so this was not the case?

Mayur Padhya: Yes. We could not because inventory prices were down, and at the same time, finished good prices were also down simultaneously in very short span of time.

Saravanan V: Okay. And the H-Acid prices you had mentioned, Q3 average realization was Rs.390 quarter-to-quarter?

Mayur Padhya: No. Average price realization was INR 406, and presently, it is traded between Rs.390 and Rs.400.

Saravanan V: This is H-Acid?

Mayur Padhya: Yes.

Saravanan V: And VS Q3 average realization was?

Mayur Padhya: 251 and presently.

Saravanan V: 245?

Mayur Padhya: Yes 240 to 245.

Saravanan V: Sir how is Q4 shaping up because that will help to recover some of the business loss in, in Q3 is that happening?

Mayur Padhya: Things are now back on track, but the Q1 and Q2 the prices of H acid and Vinyl Sulphone were better than the normal, which now they are at the normal levels.

Saravanan V: That is why we have been scaling up our Dyestuff also when the intermediate prices soften we would try to use our Dyestuff business, we will scale up our Dyestuff business to insulate the fallen DI prices, so is that happening?

Mayur Padhya: Yes that is what is happening and we are doing value addition by expanding our capacity in Dyestuff that is our strategy for a normal term.

Saravanan V: Because first nine months you mentioned that Dyestuff production is 13700 tonnes you have given in your slide?

Mayur Padhya: Yes, so that is better compared to last month.

Saravanan V: Incremental capacity some part of the capacity is already come on stream or yet to come on stream?

Mayur Padhya: No for the new expansion of 6000 metric tonnes all the capacity is yet to come on stream.

Saravanan V: Which means we are almost 90% + of utilization in the existing capacities of Dyestuff?

Mayur Padhya: Not 90% + for the last quarter it was a bit lower because of some slowdown etc., but we will reach to 80% in one or two quarters for the total capacity.

Saravanan V: Of 29000 tonnes?

Mayur Padhya: Yes 80% of the 29000.

Saravanan V: Got it and the power plant margin improvement because of lower cost of power is that happening now?

Mayur Padhya: Yes that has already started. That positive impact is already there.

Saravanan V: Have we been able to benefit from the sulphuric acid price seen?

Mayur Padhya: Yes. We are benefited.

Saravanan V: But, despite that the profits have been kind of muted this quarter?

Mayur Padhya: Yes.

Ankit Patel: This is Ankit here. Actually, the sulfuric acid business, what happened is, the finished goods prices were really good, strong, but the problem was the raw material price of sulfur. The sulfur prices in quarter were on an average around Rs.15, Rs.16 per kg. So though the finished goods price of sulfuric acid was very strong across India, for us the raw material prices are also high. So the margins are probably similar to the previous quarters.

Saravanan V: Okay. I mean getting clients for our Dyestuff capacities, are there any challenges or only the production part?

Ankit Patel: See, it is not a very easy job, obviously, but with our setup, with our distribution network, it is more often expansion job than an entirely new job. That is why it is a little bit easier so we are also in the process of opening a warehouse in Kolkata and Jaipur. So gradually with our persistent growth, we are also adding infrastructure to our marketing setup. We are also planning with help of the new company that is opening in China; that should also add some strength to our marketing in China. We're also trying to do something in Europe, wherein Turkey and couple of other countries has a huge market. So we are also trying to expand our better marketing setup there.

Saravanan V: Okay. Because I mean, you've been all along communicating that Dyestuff remains your high priority, right? And you will make use of any short-term opportunities thrown by the Dye Intermediates segment, but you will want to forward integrate to Dyestuff and focus I mean, migrate most of your business to the Dyestuff side?

Ankit Patel: So slowly gradually we also want to move to our B2C model. Earlier when we started Dyestuff, it was B2B. Now B2C, out of our, let us say, the dyes numbers are around 1500, 2000 tons per month, I would say we have reached about 15% to 20% B2C. Obviously, when we do B2C, the margins are better. So in a long run, that is our target and that is the reason why we are opening a company in China, we are trying to open a company in Europe, we are also in the process of opening a company in Bangladesh. These are some of the major markets. With the help of those local setups, with the local representatives that is our target. In India also, we are doing the same that is why we are opening distributors. We are appointing more distributors and we are also opening more warehouses and offices across India. So we can tap the B2C markets. So earlier, if you look at the Dyestuff marketing practice, which was controlled by MMP, they are doing the same. So they will do a lot of B2C, and that is why their margins are really good. So we are in a transition period where we are moving from B2B to B2C. And obviously, once it is converted, let us say, even 50% of our total Dyestuff sales into B2C, I am sure the margins in the Dyestuff industry will be much better for us.

Saravanan V: So till then, there will be increased costs because one, your working capital could go up; and second, you will have to promote the brand, so there will be some brand-related costs also? Marketing costs?

Ankit Patel: This is not like an FMCG or a customer-based brand. We do not really do any activities like that or promotion and all, but we do have meetings and we do have presentations, so I think the way we can create a brand is that we have to supply as a basket. So we are also planning to do that. We are also planning to add some more other chemicals and some auxiliaries, which have to be supplied as a basket to the some of the consumers directly. So there is not an extraordinary cost, like with FMCG products and all, where the marketing or the branding costs tend to be much higher. So yes, you are right that our working capital numbers may change with the addition of the more B2C. But I do not see any huge costs for our brand development there.

Saravanan V: But when you say B2C, this means, we are eliminating the traders in between and you are directly supplying to your end clients?

Ankit Patel: Correct. That is why I said.

Saravanan V: Which means the textile companies, which are leather companies or paper companies?

Ankit Patel: So the working capital can definitely be higher with the growth of the B2C.

Saravanan V: Okay fine, I will join back the queue. Thank you.

Moderator: Thank you. We have a next question from the line of Tanmay Mehta from SBICAP Securities. Please go ahead.

Tanmay Mehta: Thanks for taking my question. Sir, can you just guide on the raw material environment because if I see the gross margins have come down significantly. So if you could just say the prices of the major raw materials that you use in this quarter and in the previous quarter, Y-o-Y?

Ankit Patel: The raw material prices are now, I would say, they are quite stable. So in the Q3, the problem was that prices were constantly going down in a very short time. Because of this constant and a fall in the crude prices, all the raw materials were also going down. So parallelly, our finished good prices also crashed for some time. But then, just like how crude did correct and came back up to some consistent levels, similarly, the petrochemicals and the refinery-based chemicals, they have also somewhat settled down. So this quarter, we are not experiencing much of any inconsistency in the prices of our raw materials. And comparatively, yes, the prices have increased a little bit just with the crude, but also our finished goods prices have also increased. So for a period of about 1.5 months in Q3, there was a crash in all the prices, just like crude, our raw material price as well as finished good prices, but they all are corrected. The more important part actually at our end is to have a consistent pricing of the raw material and the finished goods, which is what is happening right now.

Tanmay Mehta: Yes so if you could just quantify the prices of may be couple of raw materials, the major raw materials that you use?

Ankit Patel: So some of the major raw materials were, for example, sulfur is there. Sulfur acts a bit differently. It does not really act with the crude prices going up and down. It has some other parameters. But sulfur in Q3 was around Rs.15, Rs.16 per kg, currently it is around Rs.12. So it has corrected, and it's quite consistent. So it is a good positive for us that we have monthly buying of sulfur around

Rs.5 Crores to Rs.7 Crores. So that is one big plus. And there is a product called aniline, which is made from benzene, which is a petrochemical. So there also prices got corrected from, let us say, Rs.120, Rs.130 levels to about Rs.70 to Rs.80 levels and then it got stabilized around Rs.80 level. So that is how they have been acting.

Tanmay Mehta: So we immediately pass on these price decreases to the customer, because if the prices are decreased, then we should benefit, right?

Ankit Patel: I mean, that is what we try to do, and we are up to some extent, we are able to do that. But this time, especially in the Q3, the fall in the crude prices was so sudden and it fell so much in a very short time. So it was a very extraordinary kind. So obviously at such a falling in such a short time, even our buyers in our segment are not really purchasing large quantity. So I think that's what happens whenever there is an extraordinary fall like this. Otherwise, whenever there is a steady fall or decrease or increase, we are able to pass it on.

Tanmay Mehta: Okay. And Sir, can you guide for the capex, what you have done till Q3 FY2019 and for the next couple of years, what is the expected capex? Do you have any numbers?

Mayur Padhya: This is Mayur. And as we have guided in the last quarter, capex for current quarter is about Rs.115 Crores, and that is going on track. And no major variation is there in current year. As far as next year is concerned, we are yet to finalize our capex for our new site that is near Dahej. And once we finalize that, on that basis, we can guide about next year's capex plan.

Tanmay Mehta: Sir, what will be the forex gain or loss in this quarter, we usually disclosed that one thing I am able to see that any presentation?

Mayur Padhya: Yes, for the two quarters it was abnormal that is why we have highlighted, it was not that significant, I do not have figures at present, but it is not that significant, which can affect the quarterly result.

Tanmay Mehta: Sir, about the tax rate, if I took the tax rate it is really high at around 41%, so any reason for that?

Mayur Padhya: There are corrections, which are done by our auditors, so tax calculation is a bit lengthy subject frankly speaking to make you understand on concalls is really difficult, if you want to understand we can connect offline. It is done by auditors as well also.

Tanmay Mehta: Which figure should I work with in the subsequent year that is the reason I asked?

Mayur Padhya: Yes, you can consider 34%.

Tanmay Mehta: Sir, can you guide on the China factor how the environment is shaping up in China, are the capacities coming back or how is it?

Ankit Patel: The facilities, I think, are working okay in China, that is what my reading is as of now, and I do not think there is any major area or any major company which is disturbed or closed down. So I think most of the major companies are operating, they may be facing difficulties to operate at very high levels. So my latest information would be that they are all operating around 50% to 70% depending on where they are. But definitely, we do not hear anything about their growth plans. So any of the major, even the top 5, top 10 players, we have not heard about any of them growing into any of these capacities of Dye Intermediates or Dyestuff. So I think that is what is happening right now.

Tanmay Mehta: Right Sir and just last question on the margin outlook, what would be the margin outlook for the next quarter and may be a year after that if you could give some broad idea?

Ankit Patel: Next quarter and the next financial year, the margin should be better in this Q3 2019, a couple of reasons being that the integrated thionyl chloride capacity will come on stream. We will also add more Dyestuff capacity, which will have some impact on the next year's numbers. Also, we are trying hard to convert Trion Chemicals from a small loss to a breakeven or even some profits. Also, SPS Processors, it looks like if nothing goes wrong form today, we can get the permission to transport the material from Reliance within 3 months. So if that also happens, then we will have be able to start adding substantial capacity at SPS. And with that addition, which has a good integration with the existing H-Acid plant, so that should also definitely eliminate the losses, and it should also add some profits. So next year definitely looks more solid, and even Q4 looks much better than the Q3. So the margin should be better than the Q3.

Tanmay Mehta: So, 18% to 20% range would fine to work with?

Mayur Padhya: Yes.

Tanmay Mehta: Thanks a lot, Sir.

Moderator: Thank you. We have the next question from the line of Siddharth Purohit from SMC Global. Please go ahead.

Siddharth Purohit: Sir, when I look at the 9 months figure, the production definitely looks subdued, as you said, because of the plant shutdown. But could you possibly quantify what was the production loss due to plant shutdown and due to other measures, maybe environmental issue or maybe real some sort of lower uptake?

Mayur Padhya: It is difficult to quantify exactly.

Siddharth Purohit: Because even probably it will be an annual kind of shutdown, so may be in next year also somewhere down the line we will have to take the maintenance and accordingly there will be a hit, so what kind of volume normally one should consider, because prices certainly will remain volatile going ahead also and it has seen, so what sort of volume guidance we should consider given that the underlying textile industry at least in the domestic not seeing too much optimistic scenario?

Mayur Padhya: Yes. As far as volume is concerned, you can consider the first two quarters' average should be there. And there should be gradual growth in Dyestuff quantity and the plant shutdown in Q3, which is for maintenance purpose that is mainly for Basic Chemicals. So other 2 areas will not get impacted if you are considering for future.

Siddharth Purohit: So this Dye Intermediates, whatever production loss we have seen are maybe in a production decline quarter-on-quarter. So it is not linked to plant shutdown. That is primarily because of other reasons.

Mayur Padhya: Yes, it is not for plant shutdown for maintenance.

Siddharth Purohit: Fair enough Sir.

Moderator: Thank you. We have our next question from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: I just want to continue the question which previous participant asked regarding in terms of the gross margin. Sir, as you said, annualized prices have declined from Rs.121 to Rs.80-odd levels. But in the last quarter, you had mentioned the average annualized prices for us were Rs.100 and caustic soda was around stable at around Rs.40. But despite of that, we have seen the decline in the gross margin from 41%, which you reported in the previous quarter as 36%. So is there anything that is there is any fluctuation in these prices from that level? Or it is largely due to the fall in the realization?

Mayur Padhya: It is largely due to the realization of the finished goods products because entering we also import aniline. And aniline is not key raw material. There are about 10 raw materials, which probably contribute and which are around 5% or something of our total procurement. So that is an example I give. There are also some other main raw materials, which we depend on. But obviously, the more effect would be coming from the finished goods prices.

Jatin Damania: So, that means that impact on the decline in the finished foods prices, will we see in the Q4 also or that probably because of the sharp fall in the raw materials prices gross margin will hinge up from the current level?

Mayur Padhya: No, Q4 has been quite consistent. Our raw material prices have also been quite stable. Our averages of raw material prices are also okay. And finished goods prices are also somewhere it got corrected. For example, Vinyl Sulphone got corrected up to Rs.225, but now it is again back up to Rs.240, Rs.250 levels. So Q4 looks quite stable as far as our margin is concerned.

Jatin Damania: Yes. Because your current prices of the VS and H-Acid is still 2% to 3% below the third quarter numbers. So that is the reason I am asking that.

Mayur Padhya: Well, I think the raw materials prices compared to Q3 are better.

Jatin Damania: Okay. And Sir, the last couple of more questions. One is on the capex. In first half, you have already spent near about Rs.74 Crores out of Rs.115 Crores, Rs.120 Crores, which were lined up so any actual number that we are spending in the third quarter? And what will be the spillover for the fourth quarter?

Mayur Padhya: For third quarter and fourth quarter capex will be around 40 Crores.

Jatin Damania: Yes, but the second half anything that we have spent in the third quarter or largely spend in the fourth quarter only?

Mayur Padhya: You can consider equal. I do not have the exact number, but more or less equally that should be in both the quarter.

Jatin Damania: And sir, last question from my side. One post decommissioning of the TC and Dyestuff expansion. What is the incremental revenue that we can expect in FY2020? And what is the margin expansion that one can expect from the contribution of the TC plant?

Mayur Padhya: See, TC plant is going to start within this quarter. And Dyestuff also we are expecting during next quarter. See, when we consider TC, TC is not a high-value item. See, 2 years before, it was traded between Rs.15 and Rs.20. Presently it is traded Rs.30 or something like that. But over here also about 30% will be captive consumption. So this is not going to add much as far as topline is concerned. And as far as Dyestuff is concerned, once we add the Dyestuff production, there will be about 60% droppage in intermediate sales volume rather sales value number. So both the things will more add up to, to our margin, but not much at the top line level. But we are confident, once both these go ahead, our gradual margin improvement will definitely be there.

Jatin Damania: Sir, also on the topline can we assume higher single growth in FY2020-FY2021 or probably it will be lower than as well?

Mayur Padhya: It can be above 10%, that also depend upon the crude prices, how that react and finished goods prices, but you can safely consider the number you have mentioned.

Jatin Damania: Thank you Sir and all the best.

Moderator: We have the next question from the line of Saravanan Viswanathan from Unifi Capital Private Limited. Please go ahead.

Saravanan V: Thanks for taking my follow up question. Sir, if we look at, see in the revenue side yes, it will be influenced by crude prices and raw materials prices, but if we just go by the gross profit or the EBITDA numbers, what sort of growth can we anticipate in FY2020?

Mayur Padhya: See, in FY2020, as we mentioned earlier also, TC and Dyestuff both will start contributing power plant has already started contributing, so both this will give, we can be in the range of 18% to 20% no doubt we have a plan to increase EBITDA 1% every year for coming at least two to three years, but it should be between 18% and 20%.

Saravanan V: The absolute growth in EBITDA?

Mayur Padhya: No, margin I am taking about, absolute growth can be about 10% to 20%.

Saravanan V: So that is a big range, 10% to 20%. Okay. And Thionyl Chloride, you have mentioned that commercial production will start by end of Q4. We are already in February. So I mean, you have commissioned the plant? So some validation batches are going on or test batches are going on? What is the status?

Mayur Padhya: Yes, plant is almost ready actually. This Saturday, we have this Puja to start the plant. And we are already procuring the raw materials by end of this week so our target to have the commercial production around 15th to 20th of this month. It should happen in the next about 10 to 15 days. We will start to sell the material in the market.

Saravanan V: And you will also start to use it for your captive consumption?

Mayur Padhya: Yes via pipeline.

Saravanan V: 30% is captive and 70% you will sell it in the market?

Mayur Padhya: Yes, correct.

Saravanan V: And the current prices you mentioned, what was the prices Thionyl chloride?

Mayur Padhya: Last year our average buying price was Rs.30 per kg.

Saravanan V: And currently what is the price?

Mayur Padhya: We have some large quantity understanding with couple of the companies, so I do not have an exact price right now, we go by the first week or 10 days of the month and then we will decide the price how this, but I think it is stable around Rs.30 right now.

Saravanan V: And when you sell it to the open market you will be realizing close to that range only, right?

Mayur Padhya: We should, yes. When we come with recent competition obviously we also be trying to sell to the large buyers, but looking at this current supply demand scenario in the products I do not think it should crash too much, it is going to have some impact of some correction in the price, but it will still sustain a good margin range.

Saravanan V: And as such there is a good margin between your cost of production and the current selling price?

Mayur Padhya: Correct.

Saravanan V: Thank you.

Moderator: Thank you. We have the next question from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: Sir, couple of questions. One on your trading companies, which you have setup in China, Europe and India, would the product basket, which we would be offering to clients will be limited to our own product or they would just go for the third products also?

Ankit Patel: Our first purpose to have the subsidiary companies internationally is to serve our own business interests. So basically, if I talk about China, then we have 2 activities there. We procure some basic chemicals. We also procure dye intermediates from them. So instead of getting it from agents and middlemen or traders based in China, I think it should give us slight better prices if we have our own stock. So that is our one target. Second is that the very first office that we are opening, that is in the leather-processing zone. So we are targeting to sell our acid dyes, where we have a largest store in India. We are targeting direct sales to the leather processing industry in China. So that is our initial purpose, and that is where our focus is. But then we have also started exporting some dye intermediates to China. So we will also focus on that, where our own people sitting in China will be selling that material. We are also opening a warehouse in Shanghai, so we can stock some dyes or some other chemicals and sell from there. So we are also targeting some B2C. So when I take the leather processing industry, that is where the B2C model comes in, and you want to sell directly to them. So that is China. And Turkey is where our reactive dyes major market is. It is one of the biggest textile markets. So there also we do sell to some of the local agents, local distributors and traders. So if we have our own setup, then we can again execute the B2C model in Turkey. So that is the idea. And also, in Turkey, we can send our products from here in crude from. We can process it further in Turkey, and we can sell it as a made-in-Europe or made-in-Turkey product. So also, Italy has a very huge leather processing industry, we can also cater to that. So that's the idea behind the company in Turkey.

Anubhav Sahu: Got it, Sir. So as of now, for the export marketing, up till now, we are only B2B, right? And this will be our first initiative for B2C?

Ankit Patel: Yes.

Anubhav Sahu: In Indian and domestic market, how much of sales percentage will B2C right now?

Ankit Patel: So I think the latest numbers are around 25% is about B2C from of our total sales, which has actually been increasing significantly because I remember about 2 or 3 years back, we hardly were doing around 100 tonnes amount of direct sales. So we have taken that number up to 300, 400 tonnes levels.

Anubhav Sahu: Got it. And Sir, my second question is on Vinyl Sulphone project for SPS. I mean, in terms of formation and approval, Sir, it has taken quite a long time. Is there anything from the policy framework? Did we miss out anything? Is it something, anything we have to live it with because the interpretation of the policy or the approval process such that it can take such a long time?

Ankit Patel: Basically, the way it works is the distance between the Reliance factory, where they produce the chemicals, and the consumption point, which is close to Delhi, near Mathura. The distance was very long. So they had some special requirements and prerequisites for the same. And so the approved tank manufacturer from Reliance had designed, and they adopted some new techniques and designs, which are executed in Europe and US. But when that was applied, so last year, when we applied, when this transporter applied for that, so the ruling officer had a problem with the design, saying that, you know, I cannot approve, this is new design. So we tried for a few months to convince them, but that did not work. And finally I think the ruling officer has been transferred, and there is a new person there. And so again, they have also made some changes to the design as per ask earlier and now they've again freshly applied for that. So after the application and routine, it is about 2 to 3 months process because there is some third-party inspection and approvals and certification is also required. So I can say that we have freshly applied for that and this time it is very positive because of the authority, who was denying is not there anymore. So we are just hoping, and I am much more positive this time that they will approve the design of the tank. And once it is approved, we should be able start using the material and start the plant.

Anubhav Sahu: Got it, Sir. So Sir, I mean, given this context, I also wanted, if we can hear from you, what are the new trends as far as the environmental compliance is concerned for the Indian market? Because previously, you did mention about Gujarat, there are a few locations there, now it has been restricted the kind of business that you do should be restricted to those places. So pan-India also, do you think some new trend emerging in terms of compliance, authorities are getting more stricter and there are only few locations where it can be done?

Ankit Patel: Yes. This overall environment prospect is definitely changing to protect the environment, and the government approaching attitude has also been like that. But I think the focus is not too much in the other areas of India because the industries or the similar kind of industries are not everywhere. So they are very scattered if you look at Eastern part of India or Central India or North India. Even South India does not have too many of industries like how they have it in Western India, Gujarat and Maharashtra. So I think other than the environmental concerns, even the viability is not really there, if you let us say, if you produce same chemicals elsewhere in any other parts of India. So we are experiencing the same with the factory here near Delhi because I would say, more than 90% of the raw materials we have procured from Gujarat side only. And also the finished goods consumption with Dye Intermediates, which is made there in Delhi, we will bring it back to Gujarat instead. So on an average, to take 1 kg from Gujarat to there is around Rs.3 to Rs.4 per kg cost. So overall, it makes it very unviable because the raw materials are not available and also the end market is not available. So that is why Gujarat and Maharashtra are much more suitable. And also, we need to import a few products. There is also export market. For example, we export more than 40% of our production. So you also need good port connectivity and viable port connectivity.

Anubhav Sahu: That is very helpful. Thank you Sir.

Moderator: Thank you. We have the next question from the line of Rohit Nagraj from Sunidhi Securities And Finance Limited. Please go ahead.

Rohit Nagraj: Thanks for taking my question. My question pertains to general industrial trend. In the last couple of quarters, we have seen that the intermediate prices are consistently coming down. And based on the comments, we understand that there has not been any change in Chinese acquisition, so there are no incremental supplies coming from there. So what has changed because of which the intermediate prices have been coming down? Is there any concern on the constant demand itself? Or any other factors which we are missing?

Ankit Patel: No, I think intermediate prices even at these current levels are quite okay. I mean, in the first and the second quarter of this year, there was a trend when there was some supply/demand gap, and that is why there were some extra margins. That is why our top and bottomlines both were more than our recent guidance or expectations. So if I talk about the current levels, I am not saying that they have not been consistently coming down. I think for first and second quarters, they had an increase up to some extraordinary levels and that has just been corrected now. So even in Q3, which is historically dull quarter for us because of this demand cycle is also low around that time and also we go through our shutdowns. So because of this, our Q3s are normally down compared to other quarters. So they have just been corrected. I do not think that they are consistently coming down.

Rohit Nagraj: Okay. And in terms of the Dyestuff prices, have those been remaining constant because, I think, in the first and the second quarters, we've been not able to pass on the increase in intermediate prices to the Dyestuff?

Ankit Patel: Well, Dyestuff prices, they just work with the intermediate prices of acid. So if there is an upward movement, then obviously, the Dyestuff prices will increase, and if they get down, then they go down. So there is not too much of a logic or supply/demand scenario that plays there because there are so many numbers of products and the market is around the world. So they are more of a stable and consistent prices and margins.

Rohit Nagraj: All right. Sir, on the environmental compliance front, how are we currently placed in terms of our plant being zero-liquid discharge? And I mean, are all the plants ZLD or some are in the process of going in for ZLD? How are we placed?

Ankit Patel: ZLD is something I think it is a new concept, which has been there in the industry for last few years only. And my view is that ZLD is a more expensive process to achieve this production. And fortunately, only our unit near Mathura is 0 discharge. All our other units, which are here in Gujarat, and Trion is also 0 discharge. So our two of the new latest subsidiary companies, they work on 0-discharge basis because they are new developments. But all our other manufacturing units here in Gujarat, none of them are ZLD. And I think it is better that they are not ZLD because ZLD I mean, industries have to go through ZLD because there are restrictions from the government or the pollution control bodies. So earlier in Ahmedabad or in Ankleshwar or in Baroda, we do have infrastructure to discharge our after-treatment effluent. So that is definitely a more economical way. And most of our plants are like that. So in Baroda, which is a main plant for us, which is about 70% contribution to the topline, that plant we use a canal that goes from Baroda, which is laid down for IPCL and IOC and all that. So we use the same infrastructure, and we discharge our effluents there. So it actually brings down the cost compared to the ZLD concept.

Rohit Nagraj: And there are no plans immediately to put up the facilities on ZLD in immediate future? And does it have any kind of restriction in terms of exports of the products from the vendors because the plants are not ZLD or so?

Ankit Patel: No. I think you have some wrong impression about what this ZLD concept is. I mean, having the ZLD is not actually a great thing. So having the ZLD is actually very expensive. And it is just that last about 4 to 5 years because of these environmental issues, it is easier for the authorities to supervise and restrict the companies if the unit is ZLD. So for example, if the unit is ZLD, not a single drop of effluents or water can come out, right? So the authorities do not have to look at anything. As long as that location is sealed, there are no pipelines coming out, they do not have to worry about it. But our plants are old, and we actually have this facility of discharging, so which is actually economically much better. And it is all after treatment. So for example, if I talk about the canal that we use, Reliance plant in the whole IPCL plant, IOC Koyali refinery, GSFC, all these big companies are using that canal. So they are not zero-liquid discharge. They do not have to be zero-liquid discharge. Same way if you look at Reliance Jamnagar refinery, they are not zero-liquid discharge. So being a zero-liquid discharge is actually a negative thing so and if, for example, in our company only, the Trion Chemicals we have zero discharge. So obviously, our economy is much higher compared to a couple of largest companies in the world, same thing with SPS Processors in Delhi. So that is zero-liquid discharge. So the economy of that H-acid plant, because it is a zero-liquid discharge, compared to the economy of the H-Acid plant in Baroda, there is a difference, there is definitely a difference. And obviously, the economy in Baroda plant is much better. And there are absolutely no requirements, never even heard of any bias or any country importing relating this zero-liquid discharge information with any of our fields or marketing. That has nothing to do with it.

Rohit Nagraj: Thank you very much.

Moderator: Thank you. We have the next question from the line of Naushad Chaudhary from Systematix Group. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity. I missed out on this part. Did you share the volume number of your Dyestuff and intermediate production, Sir?

Mayur Padhya: Yes, we have shared that number in our presentation itself. For the sake of more information that we give you, for the quarter, Dyestuff production was 4067, Dye Intermediate was 5084, and Basic Chemicals was 37647 metric tons.

Naushad Chaudhary: And average realization of H-Acid I missed out, Sir?

Mayur Padhya: Average realization for H-Acid was 406 and Vinyl Sulphone was 251.

Naushad Chaudhary: Versus last year?

Mayur Padhya: Last year data I do not have, you can connect me offline I will able to give you.

Naushad Chaudhary: What about Dyestuff Sir, what was the realization in Dyestuff?

Mayur Padhya: Dyestuff, we do not have the clear realization number. See, a number of products are there, which do not make much of the sense to follow that number because it depends upon the strength and depends upon the color we are producing and we are setting. So there is a variety of numbers for that.

Naushad Chaudhary: Okay. Lastly, on our Dyestuff expansion plans, Sir. Earlier, if I am not wrong, there is slightly a delay in the expansion of these Dyestuff plant. Earlier, we used to talk in the range of 12000 metric tons of adding of 12000 metric tons, then we came down to 8000 then, now we are talking about 6000. So what is the reason behind this, Sir?

Mayur Padhya: No, I think you are not following our company. See, initially, before 1.5 years, we have declared we are going to have 8000 metric ton capacity expansion. And during the course of expansion, we have converted that 8000 into 12000, and 12000 capacity expansion had already been commenced in March 2018. So that expansion is over last year itself, 12000. And this year, in October, we have declared another capacity expansion, that is, 6000 metric tons, and that is going as per plan. So by next quarter, we will be able to start production from that.

Naushad Chaudhary: Yes. But that 6000 in Phase 2 was expected to be 12000. Earlier, we had plan of 24000 Dyestuff added and 12000 you added and 12000 was expected by end of this year. So now we are talking about 6000.

Mayur Padhya: No. Initially, when we declared, at that time, we were planning that first phase will be 12000. And maybe after a gap of about 1.5 years, we will consider another phase. So that phase would have been come next year, but considering the demand and China development, we have preponed that, and we are starting with half of that capacity. Everything is going positive and preponed. Nothing is delayed.

Naushad Chaudhary: This would eventually become 12000, you dividing into two parts right?

Mayur Padhya: Yes.

Naushad Chaudhary: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to the management for closing comments.

Mayur Padhya: Thank you very much all the participants and SBI Capital for hosting this call. If any participants question remains unanswered, they can contact us offline, we will be happy to answer that question. Thank you.

Moderator: Thank you. On behalf of SBICap Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.