Bodal Chemicals Limited

Q1 FY2017 Earnings Conference Call

August 5, 2016

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Moderator: Good Day, Ladies and Gentlemen and Welcome to Bodal Chemicals Q1 FY2017 Earnings Conference Call. Joining us today on this call are Mr. Ankit S. Patel – Executive Director and Mr. Mayur Padhya – Chief Financial Officer. 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Before we begin I would like to mention that some of the statements made in today's call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the 'Earnings Presentation'. I would now like to hand the conference over to Mr. Ankit Patel who is joining us from the US. Over to you, sir.

Ankit S. Patel: Welcome, Ladies and Gentlemen, and thank you for joining the Q1 FY2017 Earnings Conference Call of Bodal Chemicals, our first ever earnings conference call. I also have with me on the call Mr. Mayur Padhya – CFO of Bodal Chemicals.

I hope you have had a chance to go through the 'Earnings Presentation' and 'Financial Results' which are also available on the company website.

Many of you already know about Bodal Chemicals but please allow me to say a few words on where we stand today. We are one of the leading manufacturers of Dye Intermediates and Dyestuff globally and we estimate that our global market share is 4-6% today. In India, we are the most integrated Dyestuff manufacturer and also the largest producer of Dye Intermediates. A third product category we are into is Basic Chemicals, close to half of which is used in-house in the manufacturing of Dye Intermediates. Although approximately 40% of our Dye Intermediates output is used in-house in the production of the higher value add Dyestuff products. A third of our revenues comes from exports to 35 countries. Some of the global blue-chip customers we cater to include BASF, Huntsman, OH YOUNG and Stahl.

As a part of our long-term strategy, we have identified new opportunities which bring with them a new growth trajectory for Bodal Chemicals.

The most important of these are three new high value products – First is the Specialty Chemicals, a bactericide mainly used in swimming pools and also used as a bleaching agent in the Textiles industry. This will be produced by Trion Chemicals with production expected to start in the second half of the current fiscal year.

The second product is LABSA, an anionic surfactant widely used in formulation of all ranges of Domestic Detergents Powder, Cake and Dish Wash Cleaners. We started commercial production two-three months back and product have already received encouraging feedback.

The third product is Liquid Dyestuff which is primarily used in paper industry for coloring the papers. You may refer to Slide #5 of our earnings presentation for details regarding capacities of each of these.

During the quarter, we were granted approval by the Export Appraisal Committee of the Ministry of Environment and Forest and Climate change for the expansion of our Dyes and Dyes Intermediates manufacturing facility from 2,200MT per month to 6,000 MT per month and also for a 5MW co-generation power plant. Additionally, in July 2016, the Board of Directors approved expansion of our Dyestuff capacity. In the first phase which is the next 8-10 months, we expect to increase the capacity by 8,000 MTPA taking the total Dyestuff capacity to 25,000 MTPA. Capacity would be further expanded by another 16,000 MTPA over the next three years.

I will now hand over the call to Mayur bhai to take you all through our financial performance during the first quarter of FY2017.

Mayur Padhya: Thank you, Ankit bhai. Good Morning everybody and thank you for being with us today. In terms of financial performance, it has been yet another strong quarter for Bodal Chemicals. Total Standalone Income increased by 9.9% Y-o-Y to Rs. 2,705.5 million, supported by increased finished goods prices, better product mix and growing demand for our products in the domestic market. EBITDA expanded by close to 39.9% Y-o-Y to Rs.569.4 million and margins stood at 21% which is 451 basis points higher compared to the same quarter of last year. Net profit grew by 59.8% Y-o-Y to Rs.322 million and margins stood at 11.9% which is 371 basis points higher compared to the same quarter of last year.

If you refer to Slide #9 of our 'Earnings Presentation', you would notice that how our profitability margins have steadily gone up over the last five quarters.

Referring to Slide #8, the share of Dye Intermediates revenue increased by 59.2% during the quarter compared to 50.5% during the same quarter last year. The share of Dyestuff decreased to 26.5% from 35.6%. With the expansion in Dyestuff capacity over the next few years as Ankit bhai mentioned, its contribution in total revenues will steadily increase.

We believe in maintaining a conservative leverage profile. At the end of June 2016, total debt to equity was 0.6x and Net debt to LTM EBITDA was 0.9x. Our short-term and long-term bank facilities were upgraded to 'A2+ and '(A-)' respectively by CARE ratings at the start of June quarter.

For the quarter, Bodal Chemicals has declared an interim dividend of Rs.0.30 per equity share that is 15% on face value of Rs.2 per share. This dividend is testament to our confidence in Bodal Chemicals strategic direction and future cash flow.

I wish to reinforce our continued commitment to financial discipline and shareholder value creation. We remain optimistic about value that our relentless efforts will help generate and sustain over the next few quarters and years.

On that note, I would like to open the floor for an interactive Question & Answer Session.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question and Answer Session. The first question is from the line of Sarvanan Viswanathan from Unifi Capital. Please go ahead.

S. Viswanathan: As regards to Dyestuff volumes, the Slide #11 says annual capacity is 17,000 MT. So, that is going to get to 25,000 MT by end of this year. Is my understanding right?

Mayur Padhya: Yes, we have declared an expansion plan, but we have not yet started the said expansion. Once we start it will take 8-9-months.

S. Viswanathan: So this 17,000 MT is the current capacity?

Mayur Padhya: Yes, current capacity is 17,000 MT and we are taking it to 1.5x by adding 8,000 MT in the first phase and in another few phases we will increase once again 8,000 and then once again 8,000. So we have a plan to increase it by 24,000 over a period of three to four years.

S. Viswanathan: The second part is what kind of volume growth have you seen in the Q1 and what do you expect the volume growth would be for this financial year in the Dyestuff business?

Mayur Padhya: We can see the revenue has increased in the Dye Intermediates segment, but once we see the volume part, Dyestuff has increased by 21% compared to earlier quarter. Revenues has increased because in Dye Intermediates margins and realization were better in the last quarter. Going forward, our focus is to increase Dyestuff and slowly and gradually that will increase.

S. Viswanathan: So we understand that because of Chinese production shutdown we were able to witness good pricing in H Acid and VS. So, how are the trend?

Mayur Padhya: Almost all the Intermediates prices are better. H Acid is not at a higher level, it is at about 350 and Vinyl Sulphone is at about 400 and that is a very good level.

S. Viswanathan: No, are the trends continuing or the prices have stabilized?

Mayur Padhya: Yes, even as of now the trend is continuing.

S. Viswanathan: So it means the Chinese players have still not come back to the market?

Mayur Padhya: Yes, you are very correct.

S. Viswanathan: How long do you expect such a situation to play out?

Mayur Padhya: It is difficult to say but mostly hear from the sources. We will start the Dyestuff capacity at the early stage, maybe within a month or so, but to start Intermediates, it will take time to get complied and have facility of furnishing treatment, that will take time. Once they start production, even after that they will not be able to utilize the full capacity, we will utilize hardly 30% to 50% capacity because to be compliant fully with the pollution norms is very difficult having the huge capacity.

S. Viswanathan: So, till the time the Dye Intermediates prices are high, you might take a call to sell more of Dye Intermediates then process it into Dyestuff and sell it, right?

Mayur Padhya: Yes.

S. Viswanathan: So that is what would have happened in Q1 also?

Mayur Padhya: Correct, sometimes we have to take a call. Just for your information, even Basic Chemicals division has also done equally good in the last quarter, like Sulphuric Acid and allied products margins of these products are also very good.

S. Viswanathan: So in the Dye Intermediates also, have you seen any volume growth or it is only price-led whatever growth we saw?

Mayur Padhya: Whatever growth that was price-led, the volume was almost double.

Moderator: Thank you. The next question is from the line of Amesh Kanani from JM Financial. Please go ahead.

Amesh Kanani: I wanted to understand our Trion Chemicals business. If you can just tell us the price trend of that chemical we understand the capacity and we are seeing that you will do it in second half. So if you can just tell us the revenue potential of this based on the current trend? When we met Mayur bhai, a few months back, I think our plan is to either export or domestic depending on the attractiveness of the prices. So, how is the situation now – whether we will be selling it in India or in US depending on there were some anti-dumping duty that is there in US, so if you can just explain that bit better?

Mayur Padhya: Trion Chemicals, we are going to manufacture Specialty Chemicals and our focus geography for that product will be US only. But sometimes what we have experienced that over there yearly contract happen and if we are not able to meet the contract, then there is some excess capacity with us and that capacity we may divulge for the commercial but our main focus will be US and other developed countries. Why I am referring mainly US because we have already acquired Environment Protection license over there and that is a precondition for any company to do marketing for certain products in US. Over there, consumption is very huge; it is about 3 lakhs MTPA and capacity we are going to erect is only 12,000 MTPA. As you have mentioned that anti-dumping duty is there in US for Chinese production and that is very much helpful for us to have better margins.

Amesh Kanani: What are the price trends, some broad range, it will be very difficult to give a one particular price, if you can just explain ?

Mayur Padhya: Price is about 100 to 110 equivalent in India, prices at which we import in Indian rupees or Indian government because sometimes government is the huge consumer for this product and we export to US at a price of Rs. 125 or even better. That is what present trend shows up.

Amesh Kanani: Is this price stable say in last 2, 3, 4 years or it is a bit volatile, just to understand?

Mayur Padhya: No, there is not much volatility in the prices of this product.

Amesh Kanani: What level of capacity utilization this plant can do say, initially it will be say 30 to 50% in say for six months, correct me if I am wrong, how does it go forward given the demand how will we ramp up and the demand will pan out?

Mayur Padhya: For these products, to ramp up the capacity at a fast pace is difficult. This is a unique product and we are the first company to manufacture in India. So to set up the plant you need to have such required quality, trial run mechanism in place and that will be very crucial. To cope up with the market demand and production facility, we will require two-three years to reach the optimum capacity.

Amesh Kanani: So one can assume say maybe 30% in first six months and then maybe 50-60% second year, something like that?

Mayur Padhya: Yes.

Amesh Kanani: Anything that you can share at this stage in terms of margins on that product, whether it will be in line with our current EBITDA margins range or it will be lower or higher?

Mayur Padhya: It will be better than the existing products margin.

Moderator: Thank you. The next question is from the line of Kavita Thomas of First Global. Please go ahead.

Kavita Thomas: First question is on the top line growth that we reported of 9.9% year-on-year. Exactly how much was the volume growth and the price growth if you could bifurcate in that terms?

Mayur Padhya: It can be roughly 3-4% volume growth and balance 5% is price growth.

Kavita Thomas: Is this the trend we are expecting going forward in the next couple of quarters since the China scenario still remains quite favorable for us?

Mayur Padhya: We have concluded one more month and after the close of the month the trend is continuing. We are expecting the same trend to continue at least for this quarter and it can go further as well.

Kavita Thomas: Next is on the margins. If I see over the last six-seven quarters it has been the best margin that we have achieved. So, is these kinds of margins sustainable at least for a quarter going by or how do we see this moving in the coming quarter?

Mayur Padhya: For the current quarter it may be possible because as I mentioned earlier this time even our Basic Chemicals division had also done equally good, Dye Intermediates prices are also at a very good level continuously. But we cannot expect 21% margin to remain stable for a longer period. One or two quarters, yes, it is possible.

Kavita Thomas: For Dyes and Dyestuff, from an Indian perspective we are among the leaders, but globally what is our current market share as of now?

Mayur Padhya: I do not have the exact numbers but to my knowledge, in Dye Intermediates our global market share is maybe around 4-6% and the particular Dyestuff with which we are dealing Reactive and Acid Dyestuff plus together can be about 2-3% globally.

Kavita Thomas: Capacity as of now for Dyes we have 17,000 MTPA. Now, does this include even the Liquid Dyestuff capacity or is it excluding that?

Mayur Padhya: No, Liquid Dyestuff capacity is separate, that we have not included in this capacity.

Kavita Thomas: So, is this a new line of business that we have entered into and what has been its revenues if so in this particular quarter or for the financial year FY'16?

Mayur Padhya: This is basically a new line for us and there are very few players in India. The Liquid Dyestuff mainly goes into paper, and at present we have set up the plant for 10,800 MTPA and current utilization is hardly 150 to 200 MTPM which comes to about 3500 MTPA. Also, it will be a Specialty kind of a thing and it will require some time to ramp up because here also annual contract happen and to get approval and to have a continuous supply it requires sometime. At present this is the new division and we expect within a period of three to four years we will be able to achieve approx. Rs.100 crores turnover from this division. Here also just like Specialty Chemicals margins are better compared to the existing product line.

Kavita Thomas: What is the capacity utilization we are expecting for this financial year?

Mayur Padhya: This financial year we are targeting to reach up to 400 MTPM or so by the end of March 2017.

Kavita Thomas: This would be primarily sold in the domestic market or export market?

Mayur Padhya: No, primarily we are exporting it and we are exporting to Australia as well as South Africa. Europe is also a very attractive market for us, we are also targeting the said market and sooner or later we will start exporting over there as well.

Kavita Thomas: By and large this being an export-oriented product, so the margin as such will be far better off than the normal Dyestuff, right?

Mayur Padhya: Yes.

Kavita Thomas: Is it a possibility for you to guide us in terms of what kind of margins could we get from these kinds of products especially since we are exporting it, just to get a feel?

Mayur Padhya: It can be 20% or sometimes even higher than that.

Kavita Thomas: Next is on this promoter holding which has come down from 69% to 67%. What is the reason?

Ankit S. Patel: We have in our group Mr. Bansi Patel, he is not from the promoter family, he has joined the company as a professional and he has been allotted some shares initially and he has sold some shares. That is why there is a decrease. Otherwise, promoter family has not sold any share.

Kavita Thomas: Sir, just a question for Mr. Ankit, could you guide us in terms of what is your overall outlook for the Dyes business since we are planning such a major capacity expansion from 17,000 tonnes to 41,000 tonnes over the next three to four years, so what is that confidence that we are developing in terms of the outlook for the Dyes business as such?

Ankit S. Patel: This industry particularly Dye Intermediates is in India and China. In Dyestuff, there are certain countries in Far East and European Countries which still manufactures. But over a long period, if I compare to the trend of last five years, the manufacturer in Far East, they are not able to compete with the manufacturers like Bodal, as we are the wholly integrated players. We ourselves manufacture Basic Chemicals, we manufacture Dyes Intermediates and Dyestuff. For them, they need to import Dye Intermediate from India or China, then they manufacture Dyestuff and then they issue it globally. So that is not a viable option for a longer period. Hence, we are expecting and we are experiencing that there has been continuously shutting down of capacity over there and that is shifted to India. That is why it is possible for us to increase this much capacity and we are confident to cater to that demand.

Kavita Thomas: So basically we are seeing good demand coming up from the Far East?

Ankit S. Patel: Yes, shifting of capacities from other countries to India. Demand is growing continuously with the population growth and with the growth in the standard of living. At the same time even in India there are some small players operating, but going forward because of the strict pollution norms, etc., it will be difficult for them to expand or to maintain at the current level. For Bodal, we have installed our effluent treatment plant at the cost of Rs.30 crores and for a small player it is not possible. Therefore either they are shifting, closing down or shifting to the players like Bodal. That is why we are very much confident to increase the capacity from 17,000 MT to 41,000 MT and achieve it.

Moderator: Thank you. The next question is from the line of Sarvanan Viswanathan from Unifi Capital. Please go ahead.

Sarvanan Viswanathan: Just to have more clarity on the point discussed by the earlier caller, globally you are saying Dyestuff business is growing at 5% to 7%?

Ankit S. Patel: Yes.

Sarvanan Viswanathan: But you will have better growth because you are going to get higher market share. So organically the industry is also growing at a certain level, but you are targeting to take market share from other countries where you will be cost competitive and also scale and quality you will be able to match?

Ankit S. Patel: Yes, very much true.

Sarvanan Viswanathan: Out of this 17,000 MT capacity, for the year what will be the kind of utilization in the Dyestuff?

Ankit S. Patel: It is about 75%.

Sarvanan Viswanathan: So what will be the CAPEX for the full year because now I saw in the presentation that you will have to spend around Rs.28 crores for this 8,000 MT and then you will have Water Chemicals and LABSA?

Mayur Padhya: For LABSA and Trion Chemicals we have already incurred the capex. Only for Dyestuff additional capacity capex needs to be incurred. Otherwise, for Trion no capex is required. LABSA if we go for doubling the capacity, then we require Rs.3 to Rs.5 crores otherwise there is no capex requirement.

Sarvanan Viswanathan: So LABSA has it started or is about to start?

Mayur Padhya: It has started since last three-four months and we are running presently at about 60% capacity and we are selling it.

Sarvanan Viswanathan: Even commercial sales have started?

Mayur Padhya: Yes, that already started.

Sarvanan Viswanathan: What will be the revenues in the first quarter from LABSA?

Mayur Padhya: We have not added revenue over here, but revenue was about Rs.7 crores.

Sarvanan Viswanathan: Is Trion on track? You are expecting to start around early second half, right?

Mayur Padhya: Yes, early second half we are targeting to start.

Sarvanan Viswanathan: Even this year are you expecting some commercial sales or only trials and validations?

Mayur Padhya: Q4 some commercial sales is possible.

Sarvanan Viswanathan: What is the effective tax rate we can look at for this year?

Mayur Padhya: For the current year - full tax.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: I just wanted to know what is our market share in Dye Intermediates and Dyestuff in India?

Mayur Padhya: In Dye Intermediates our current market share is about 20% and Dyestuff is about 8% to 10%.

Pragya Vishwakarma: In there how do you see any kind of consolidation happening in India like in this particular industry and like your views on it?

Mayur Padhya: Not much. Since last five years we have not seen any new entry. The bigger players are expanding some capacity but consolidation is not happening.

Moderator: Thank you. The next question is from the line of Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: My first question is can you please tell me what portion of Dyestuff come from contract manufacturing for global players and any client-specific concentration if you can mention?

Mayur Padhya: In Dyestuff we are doing some Contract Manufacturing for BASF, but it is hardly 5% of the total production.

Rohit Chavan: 5% sales is the total Dyestuff sales from Contract Manufacturing for global players?

Mayur Padhya: Yes, roughly.

Rohit Chavan: I would like to the relationship with the customers that we have. Are these relationships are the long-term supply partnerships or do they depend on year-on-year price basis from these bids?

Mayur Padhya: We have long term relationship with customers. The customer which we have at present is the same customer we have for 10-years or before, but the contract period is generally a month-on-month or quarter-to-quarter. Normally, we do not enter into very long-term contract. We sometimes fix quantity that in a quarter this particular customer or this MNC will place 500 MT. But prices may revise on the basis of fluctuation in the raw material prices.

Rohit Chavan: So basically most of the contracts generally we try to have on a quarterly basis and not on a longer-term?

Mayur Padhya: Not on a yearly basis.

Rohit Chavan: If you can tell which are the global markets for Dyestuff today that we have a good presence in?

Mayur Padhya: In global markets, we have a good presence mainly in Europe, some Mediterranean countries like Turkey, etc., and neighboring countries like Bangladesh and Pakistan. We are exporting to Australia and America as well our but major focus is on Mediterranean, Europe and Bangladesh.

Rohit Chavan: Sir, you mentioned that Dyestuff sales are predominantly in the Europe. Can you mention how much percentage of sales come from Europe, Turkey and Bangladesh?

Mayur Padhya: I do not have exact data but about 50% will be from these Countries combined.

Rohit Chavan: From top three, this is what we can assume?

Mayur Padhya: Yes.

Rohit Chavan: So do we have a direct presence in these countries or do we sell through the distributors?

Mayur Padhya: It depends from country-to-country and we have different arrangements. Country like Turkey, there is a language barrier hence we sell through a bigger local trader and they distribute it locally. In Europe, normally we sell B2B. But all arrangements are different geographically and differ from country-to-country. Even in India we are not selling directly through textile companies, we have a dealer, distributor network in the whole country and we sell through them only.

Rohit Chavan: I was wondering our raw material prices were coming down. So would the customer not start to demand products at lower prices going forward and what would be the margins trend likely to be if you can throw some light on that as well?

Mayur Padhya: Yes, till the time crude remains at a lower level, our raw material prices are not expected to be much higher and even finished goods demand is better and margins are better. So going forward it will remain good.

Rohit Chavan: Do you believe that the margins would remain good so that the price also would be a quite comfortable to us considering that we have also heard that there is some capacity buildup going on in India in both the products segment, so could that lead to overcapacity, so you could not see any overcapacity building up in India?

Mayur Padhya: We do not see any much capacity building up in India, whosoever is planning that is a very small capacity, no big capacity is coming up. As you maybe knowing that particular Dye Intermediates to expand the capacity would be a very lengthy process, you have to obtain environment clearances and Country has such a lengthy process that it may require two to three years. So we feel confident to have a better future.

Rohit Chavan: So can you explain a little bit that what would be our strategy from our side to increase in volumes of Dyestuff going forward as other players are all ramping up to penetrate deeper, so you do not see a threat from the other players?

Mayur Padhya: In Dyestuff, we are into Reactive Dyestuff as well as Acid and Direct Dyestuff. In the Reactive Dyestuff, it is correct that there are many players whereas in Acid and Direct Dyestuff there are very few players. We are confident to meet the market demand. We need not to penetrate and that is why we are ramping up our capacity in phase wise. We are not increasing our capacity say 24,000 MT in a single year, we have strategically planned the expansion and that is why we are increasing our capacity by 8,000 MT in a first year, if it is met then once again 8,000 MT and then once again 8,000 MT. In that case, we are not required to penetrate and we will meet the market requirements.

Moderator: Thank you. The next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: Sir, you expect 2x revenue growth over next two to four years. So what will drive this growth?

Mayur Padhya: There are three-four segments; one is LABSA that capacity has already started, at present we have 18,000 MT capacity and there is a provision to double the capacity in the same plant itself. So once it is stabilized and we are confident, we will double that capacity and doubling the capacity can give us revenue up to Rs.200 crores, that is one area. Another area I mentioned is Liquid Dyestuff that can give us a turnover of Rs.100 crores. Third area is Trion Chemicals, it can give us a turnover Rs.225 to 250 crores. Additional expansion in Dyestuff can give Rs.150 crores and existing business set up can also give us a 20-30% growth in three to four years. So, all this if you add will give double growth to the company.

Dhiral Shah: Sir, who are your key customers in India?

Mayur Padhya: For Dye Intermediates all the major Dyestuff producers are our customers, like Jay Chemical Industries, Kiri Industries, Manish Chemicals, and Asiatic Chemicals etc.

Dhiral Shah: Sir, what are the prices of Dye Intermediates right now?

Mayur Padhya: We are producing on a full range of 25 Dye Intermediates. So prices are better in almost all Dye Intermediates.

Dhiral Shah: What is the market size of Dye Intermediates and Dyestuff in India?

Mayur Padhya: For Dye Intermediates market size is about 1,50,000 MT and Dyestuff is about 1,75,000 MT, here Dyestuff market is the market in which we are dealing i.e. Reactive Dyestuff as well as Direct and Acid Dyestuff. There are other Dyestuff like viscose dyestuff, etc., that I have not calculated.

Dhiral Shah: Sir, when do you expect this Chinese problem to get settled?

Mayur Padhya: It is difficult to say but last what we heard from the sources, they may start their Dyestuff capacity because Dyestuff production generates very less return, they may start Dyestuff within a month or two, but for Intermediates this will require some more time.

Dhiral Shah: Any guidance for revenue as well as volume growth for FY'17?

Mayur Padhya: It is difficult to say because our raw material prices are related to crude. Last year we have done better in volume but our top line was lower. So currently the quarter which has passed, if the current level prices remains, we can be there in the range Rs.950 to Rs.1100 crores.

Dhiral Shah: What will be our revenue mix because if I see your Q1, Dyestuff was only 26.5% whereas Dye Intermediates was 59.2%. So what will be the revenue mix by FY17 end?

Mayur Padhya: Our strategy or focus is to increase Dyestuff but currently we are getting better realization in Dye Intermediates. That is why the revenue percentage has increased. Otherwise as per our strategy, we are slowly and gradually increasing our Dyestuff volumes.

Dhiral Shah: What kind of margins do you enjoy in Dyestuff as well as in Dye Intermediates?

Mayur Padhya: Division wise margin would be very difficult to calculate because all are produced in the same plant hence we are not calculating margins separately. But we can say that in Dye Intermediates margins are better at present and in Dyestuff margins are stable in the range of 14% to 16%.

Moderator: Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.

Srihari: I did not get the CAPEX figure. Could you please repeat it for the current fiscal and next fiscal?

Mayur Padhya: Current year we have declared only one CAPEX plan, that is the Dyestuff additional capacity and it is estimated to be Rs.28 crores, otherwise routine maintenance CAPEX can be there up to Rs.15 crores.

Srihari: So cumulatively it is around Rs.43 crores for the current fiscal?

Mayur Padhya: Yes, at present, this is what we are targeting.

Srihari: You had mentioned nearly tripling of capacity of Dye Intermediates. Have you factored that in your guidance?

Mayur Padhya: No, Dye Intermediates and Dyestuff we have got approval to almost triple the capacity in one particular plant. That permission we are considering for this expansion, otherwise we have not considered the total permission.

Srihari: What is the kind of outlay, 2200 MTPM to 6000 MTPM that you have mentioned?

Mayur Padhya: Yes, we have obtained the permission from the Ministry of Environment to increase our capacity from 2200MTPM to 6000MTPM. We can do that, but at present we are going for this only.

Srihari: Secondly, could you please tell me a little bit about your R&D initiatives, how critical role does that play?

Mayur Padhya: In our industry, most of the products are stabilized. Yes, in Dyestuff it requires some R&D to develop new products and to market the same. For that we have a very good laboratory at our Padra plant itself and process is continuously going on to develop and meet the requirement of customer in Dyestuff category.

Srihari: So what would be the overall recurring expenditure currently?

Mayur Padhya: I do not have exact number, but it is not a big number likes of a pharmaceutical company. It is an expenditure in normal course of business.

Srihari: You have given a broad guidance of doubling the turnover over the next 3 to 4-years. So, is it likely over 3-years or 4-years?

Mayur Padhya: It depends upon many things. If the things go very well then it can be met in 3-years, there can be some delays, then 4-years.

Srihari: So optimistically speaking, it could be 3-years, probably pessimistically 4-years?

Mayur Padhya: I am saying 4-years, but some abnormal things can take 6-months more.

Srihari: But the best case scenario is 3-years?

Mayur Padhya: Yes, 3-4-years we are targeting.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal: What were the realizations for H Acid and Vinyl Sulphone in the first quarter?

Mayur Padhya: In first quarter there was a spike in H Acid for first half of April. There is an increase from 350 level to 800-1000 level, but then it has come down once again near to 500 level and then it is slowly and gradually at around 350-375 level. So for most of the period it remains at that level, plus Vinyl Sulphone has gradually increased

Deepak Agarwal: What was the average realization for H Acid in the first quarter?

Mayur Padhya: Yes, we don't have specific average realization figures, because prices have increased from day-by-day and we do have some old orders. Realization average number I do not have.

Deepak Agarwal: Vinyl Sulphone?

Mayur Padhya: It can be about Rs.300-350.

Deepak Agarwal: The current price is Rs.400?

Mayur Padhya: Yes.

Deepak Agarwal: Some of our promoter holding is under pledge. What is that for?

Mayur Padhya: The promoter holding is under pledge because we had to enter into CDR, at that time we were required to pledge most of the holding of promoters to the banker. Once we are out from CDR, the total shareholding under pledge will be reduced.

Deepak Agarwal: Pledge is still there?

Mayur Padhya: Yes, procedure is going on because these are the PSU banks and they work on their norms only. They have given approval but some procedure is going on to raise, otherwise approval has been given for the total only.

Deepak Agarwal: It was mentioned I think the Dyestuff our volume grew by 21%, is it right?

Mayur Padhya: Yes, correct.

Deepak Agarwal: So your revenue during the quarter for Dyestuff was Rs.71 crores and in the same quarter previous year it was Rs.86 crores, you had total sales of Rs.267 crores in the reported number and you said 26.5% is the shares that you mentioned in the Slide #5, so that is Rs.71 crores. So there is a decline of 18% in Dyestuff revenue in value terms.

Mayur Padhya: As I mentioned earlier, the realization were better in Dye Intermediates that is why we are tempted to sell more of Dye Intermediates in the market and use less for our captive consumption. That is why the fall which you are seeing.

Deepak Agarwal: No, but then is this figure right volume growth of 21% quarter-over-quarter?

Mayur Padhya: Yes, production number.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: I just wanted to understand when you said that Reactive Dyestuff there are many players in India, but it is at the same case when it comes to Acid and the other Dye segment in which you are. So what is the main reason of factor that we have more players in Reactive Dyestuff and not in the other two categories?

Mayur Padhya: Demand is very much higher for Reactive Dyestuff, but for Acid and Direct Dyestuff demand is lower compared to Reactive Dyestuff. That is why we have more players in Reactive Dyestuff segment.

Pragya Vishwakarma: If we talk about profitability in these three categories, is it at the same level or do they have like different level of profitability as well?

Mayur Padhya: It depends upon product-to-product. Some Specialty type of products have better profitability but yes, you can see that in Reactive Dyestuff profitability level is lower than the Acid and Direct Dyestuff.

Moderator: Thank you. The next question is from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: Sir, I just had a query regarding the Vinyl Sulphone prices. Actually probably in FY'16 the prices have been in the range of around Rs.200 to 250. So has it gone up to levels as high as this Rs.300 to 400 level?

Mayur Padhya: Yes, that has improved to that extent.

Kavita Thomas: Is this scenario where this price will be sustainable for at least some time since the Dye Intermediates problems in China is yet to be resolved, so are the prices likely to remain at these levels at least for a quarter or so?

Mayur Padhya: At present, the trend is continuing, but we cannot comment on its sustainability.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Mayur Padhya for his closing comments.

Mayur Padhya: Thank you very much for participating in a huge number. I would like to thank everyone for joining our first conference. In case any of your questions remains unanswered, I request you to please send it across to us and we will revert with the answers. Have a good day.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Bodal Chemicals, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability

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