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Bodal Chemicals Limited

Q1 FY2019 Earnings Conference Call

August 14, 2018

MANAGEMENT: **MR. ANKIT S. PATEL – EXECUTIVE DIRECTOR, BODAL CHEMICALS LIMITED**
MR. MAYUR PADHYA – CHIEF FINANCIAL OFFICER, BODAL CHEMICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bodal Chemicals Q1 FY2019 Earnings Conference Call. Joining us today on this call are Mr. Ankit 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 the conference, 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. Thank you and over to you, Sir!

Ankit Patel: Good afternoon to all. Thank you for joining the Q1 FY2019 Results Conference Call of our Company. On today's call, I have with me our CFO, Mr. Mayur Padhya as well. I hope all of you have got an opportunity to see our financial results and analyst presentation filed with the Stock Exchanges and are uploaded on our Company's website.

Let me take this opportunity to introduce our company to the new participants. Bodal Chemicals Limited is the most integrated dyestuff company and also the biggest manufacturer of Dye Intermediates in India. Its product range covers dyestuff, dye intermediates and basic chemical broadly following under the specialty chemicals.

Our capacity is about 25% of India's capacity and 6% of the world's capacity for dye intermediates. Bodal Chemicals has capacity of manufacturing about 25 varieties of dye intermediates and around 175 variants of dyestuff, which are principally used as raw materials in textile, leather, paper and other dye consuming industries. Out of total sales about 43% is exported to 40 plus countries across the world. Recently in June 2018, our company has received an award for highest sales manufacturing turnover from domestic and exports of dyes and dye intermediates during 2016 – 2017 year from the Gujarat Dyestuff Manufacturers Association.

Further in July 2018, the Company received two awards from the Dyestuff Manufacturers Association of India, one as a first large scale unit category for outstanding performance in domestic market and other one as a second in large scale unit category for excellent performance in the export of dyestuff. We are proactive for environment concerns and recently Bodal has setup a dying treatment plant at its largest manufacturing facility at unit 7, which is zero liquid discharge with the most advanced affluent treatment technology in India.

I am glad to say that we have clocked the highest quarterly production volumes. Topline growth was highest in Q1 FY2019. This has been possible due to our integrated business model and continued efforts towards market penetration.

EBITDA margins have expanded by 100 bps to 19.7%. We expect to continue with the good performance due to our focus on higher capacity utilization and wider and integrated product range. During this quarter, new added dyestuff capacity and co-generation power plant has started contributing. In Q1 FY2019, we have registered one of the highest growths of 30% in total income. SPS posted a profit for this quarter and expected to further strengthen for the year. Bodal has increased taking to 59%. We will provide you with the details during the call. Overall, we continue to view FY2019 as an important build year for us and we remain confident about our medium and long-term growth prospects. The detail financial numbers would be given by Mayur.

Mayur Padhya: Good afternoon to all. Thank you for joining our Q1 FY2019 Results Call. Figures mentioned on the call for Q1 FY2019 is on standalone basis let me take you through our result highlights using our analyst presentation.

Slide 9 covers the quarter operational highlight; there is increase in production volume of dye intermediates by 21%, dyestuff by 11% and basic chemical by 7%. Export for the quarter was up by 86% wherein major contribution is of dye intermediates exported to China. Slide 11 covers financial highlights. Total income for the quarter is 3,556 million that is up by 30% compared to corresponding last year's quarter. EBITDA of Rs. 695 million, up by 36% and EBITDA margin at 19.7% grew by 100 bps. PBT of Rs. 395 million, up by 24% and PAT of Rs. 392 million, up by 26% with margin of 11%.

Slide 14 provides sales of product mix for the quarter. Share of export increase year-on-year during the quarter to 43% from 30%. Our leverage and ratings are mentioned in slide 16 of the presentation. As on June 30, 2018, our net debt to equity was below zero and net debt EBITDA was also below zero.

Slide 18 and 19 provides the management comments on the results and updates. Major comments are raw material prices of all raw materials are stable and normalized compared to previous year. Coming to our subsidiary associates, SPS has started contributing during this quarter and it has achieved turnover of Rs. 92.53 million and net profit of Rs. 1.03 million. In Trion we have to still wait tobreak-even. In this quarter, the sales realization and volume have increased in some of key dye intermediates, which has contributed for better operating profit in comparison to previous year.

For the quarter, our average realization for the vinyl cell phone was Rs. 255 per kg and for H-acid was Rs. 387 per kg and we expect this extra margin to be maintained in near future. We now welcome you queries on the conference call.

Moderator: Thank you Sir. We will now begin with the question-and-answer session. The first question is from the line of Naushad Choudhary from Systematix Shares. Please go ahead.

Naushad Choudhary: Thanks for the opportunity and congrats for the decent set of numbers. On the realization side, if I look at your overall DI realization for this quarter, it has gone down by 5% from Rs. 285 to Rs. 272 whereas the industry realization has gone up by around 10% to 15% in average of last quarter, so if you can help us understand that first?

Mayur Padhya: If you have all seen the detail you will notice that we have started dyestuff production new plant and we have very good jump dyestuff production and at the same time our captive consumption from intermediate has also increased, so that is the main reason and the other companies you might have been comparing that are standalone dye intermediate company that is why this difference is there. Our business model is not comparable with any of the other business model in the industry.

Naushad Choudhary: What is the current realization of Vinyl Sulphone and H-acid?

Mayur Padhya: Vinyl Sulphone presently trades at about Rs. 300 and H-acid is at about Rs. 500, but presently we are anticipating rather we are experiencing soft demand compared to last month.

Naushad Choudhary: Lastly on the dyestuff realization it has gone up by 16%, so is there any favorable product mix or is it only because of this industry cycle?

Mayur Padhya: Because of the industry cycle.

Naushad Choudhary: Do you see the current realization of intermediate and dyestuff is sustainable for next two to three quarters?

Mayur Padhya: It is difficult to comment for two to three quarters, but near for the current quarter, yes it should be there.

Naushad Choudhary: Ideally in dyestuff business for how many months or quarter are we booked in terms of volume, as it is a contractual business?

Mayur Padhya: It is for one to two months we are booked normally, but that depends from product to product.

Naushad Choudhary: So, on an average two months we are booked in dyestuff business and the intermediate we sell it on spot basis, right?

Mayur Padhya: Yes, even in intermediate also we are booked to that extent because everything is not closed on spot basis.

Naushad Choudhary: So, will it be fair to assume the order book as of now we have for this intermediate and dyestuff would be somewhere in the range of the current market price, which you said?

Mayur Padhya: Yes, we can consider like that.

Naushad Choudhary: Thank you so much.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Sir, I want to check the performance of the Trion chemicals in the last quarter and when do we expect Trion chemicals to breakeven at the PAT level?

Mayur Padhya: In Trion presently we are not manufacturing and as you know that two of its raw material caustic and chlorine prices has softened and third one raw material that is Cyanuric acid that has not improved as per our expectation, but still we are considering to start maybe by the end of next month production and next quarter we should be in breakeven.

Jatin Damania: What is the revenue that we can expect from Trion in this financial year and how in FY2020?

Mayur Padhya: For this year, it is difficult to give specific number because we have not yet started, but it can be in the range of Rs. 15 Crores or so at least.

Jatin Damania: And for FY2020?

Mayur Padhya: FY2020, it will be difficult to tell, we will be able to tell you in the end of this year only.

Jatin Damania: As far as the industry is concerned there is always a lag effect in terms of passing off the raw material prices to the end-user, so in our actually seen improvement in the margin, is it that in coming quarter there can be pressure on the EBITDA margin because of the increase in the raw material cost?

Mayur Padhya: No, there is no increase in raw material cost, which raw material you are referring.

Jatin Damania: Upon the intermediates, raw material price has gone up in the last quarter, if you remember realization has gone up, but do we expect our margin to sustain at 19.7% or 20% in the coming quarter as well or do we see some pressure?

Mayur Padhya: For the current quarter yes, we are expecting it to remain there and thereafter as we have guided if there is no extraordinary effect from China also we will be able to maintain about 18% of EBITDA once our all new facilities are operational.

Jatin Damania: So, as of now our new facilities are only new dyestuff plant and the power plant, which are commissioned?

Mayur Padhya: Yes, both are commissioned, but the utilization is not at optimum level and Thionyl chloride plant is yet to start.

Jatin Damania: What is the current utilization for the new facility of dyestuff?

Mayur Padhya: For the last quarter it was about 8% to 10%, but that will increase up to 50% to 60% by current year-end.

Jatin Damania: We are expecting this to go up to 50% to 60%?

Mayur Padhya: Yes.

Jatin Damania: What is the revenue that we can expect on this once we ramp up the facility?

Mayur Padhya: At the optimum level it can give about Rs. 250 Crores of revenue, but at the same time, there will be some droppage of revenue in the intermediate because our captive consumption will increase and that can be about Rs. 110 Crores to Rs. 120 Crores.

Jatin Damania: Sir, second thing as you said in the previous participant that the consumption of dye intermediates increased, so can you help us what is the total consumption of the dye intermediates in terms of percentage if we sold outside and if we consume captively?

Mayur Padhya: That data I do not have at present.

Jatin Damania: I will take it that offline. Last question, from my side is on the SPS profit of the Rs. 1.02 million that we clocked in the previous quarter, do we expect the run rate to continue or probably there is further to this number?

Mayur Padhya: No, this will improve because the plant has worked for about 45 days only for the last quarter, so this figure should improve.

Jatin Damania: What is the EBITDA margin at SPS?

Mayur Padhya: For this quarter it was about 15%.

Moderator: Thank you. The next question is from the line of Shreenath Shridhar from ICICI Securities. Please go ahead.

Shreenath Shridhar: Good evening Sir. Sir, my first question, you all have a dye intermediates capacity of 30,000 tonnes right altogether?

Mayur Padhya: Yes, correct.

Shreenath Shridhar: So, out of this in your presentation you have mentioned production of 6,200, so I assume that they are operating at optimal full capacity of 80%?

Mayur Padhya: Yes, correct.

Shreenath Shridhar: But when we do the maths only if we do your total revenue for the dye intermediate segment was Rs. 169 Crores, if you divide 169 by 6,200, which is the production then we get a realistic realization in an intermediate of Rs. 272,000, but since you also use it for dyestuff you cannot be selling the whole production outside, so what is it that you all sell outside because if you do not provide that then there is no transparency which investors can see?

Mayur Padhya: See, as I mentioned earlier I do not have at present this captive consumption data so we can deal this question offline.

Shreenath Shridhar: Apart from this in your standalone and consolidated figures we do not see any difference, so how do you account for it when you say Rs. 9 Crores of sales you have made in SPS that is not visible?

Mayur Padhya: If SPS is located at Uttar Pradesh near Mathura and over there this industry is not present, so what we do mainly whatever SPS produces that is bought by Bodal and then we distribute centrally from here, so we transfer it to Bodal and at the time of consolidation all the transaction between the company are removed that is why there is not upside things in consolidated with us.

Shreenath Shridhar: Even in the PAT there is no difference like when you say Rs. 1 Crores is the profit, how does an outsider know that, that Rs. 1 Crores is the profit?

Mayur Padhya: No, it is Rs. 1 million, it is not Rs. 1 Crores.

Shreenath Shridhar: Sir, when you said that this year we will achieve incremental revenue of Rs. 110 Crores in the dye and dye intermediates or will that be for FY2020?

Mayur Padhya: Current year, we are hoping to utilize about 50% of the new capacity, so standalone dyestuff can add about Rs. 110 Crores of revenue.

Shreenath Shridhar: The dyestuff can add Rs. 110 Crores?

Mayur Padhya: Yes.

Shreenath Shridhar: And how much captive loss we will have in dye intermediates?

Mayur Padhya: That would be probably...

Shreenath Shridhar: So you did Rs. 590 Crores last year, will you do Rs. 550 Crores this year?

Mayur Padhya: That is possible that in the intermediate you have noticed that the prices are bit volatile, so at this current prices we will do even better.

Shreenath Shridhar: Understand, but if you can those sales numbers separately that would actually be much more helpful than production numbers.

Mayur Padhya: We will review on that.

Shreenath Shridhar: Thank you.

Moderator: Thank you. The next question is from the line of Tanmay Mehta from SBICap Securities. Please go ahead.

Tanmay Mehta: Thanks for taking my question. Just one question in the intermediates, is it predominately from VS and H-acid or do we have some other major contributor to this segment?

Mayur Padhya: In dye intermediate about 60% of revenue is from VS and H-acid.

Tanmay Mehta: Thanks.

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

Siddharth Purohit: Congrats for the decent set of numbers. It is good to know that exports to China as you said has picked up, just wanted to know are we supplying to some of the OEMs directly many the enduser so how it is happening are through some stockiest or may be dealers over there and how is the pipeline because normally towards winter there might be more shortages over there and whether we are expecting this to further in the next two to three quarters?

Mayur Padhya: We are exporting directly the manufacturer and if the disturbance continues it can improve further in the coming quarter.

Siddharth Purohit: Normally as said you take it for around two to three months time normally you take the booking for two months?

Mayur Padhya: One to two months.

Siddharth Purohit: So, if I missed out sorry, how much of the total exports would be on spot basis and how much would be on contract basis?

Mayur Padhya: Normally there is no or very rare on the contract basis, but if you get order for 200 metric tonnes that used to be supplied over a period of one-and-a-half months or so, so that kind of dealings happen in the industry.

Siddharth Purohit: Fine, thanks.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good evening Sir. We have changed the method of accounting depreciation right, so this Rs. 4.2 Crores can be the new quarterly run rate, is it safe to assume, or more change left to the leg?

Mayur Padhya: No, it should be more and less similar, but there can be some addition once we start the production of Thionyl Chloride, so that will be capitalized, otherwise there would be much change.

Shashank Kanodia: Sir, you mentioned to an earlier participant that we purchase the entire produce from SPS and then sell on a standalone basis right, so how do you account for it, so it should be there in stock right for you guys, is a trading activity for Bodal Chemicals?

Mayur Padhya: Yes for Bodal Chemicals either it can be captively consumed or sold to outsider, both the possibilities are there. As far as the accounting is concerned both are the standalone accounting treatment to be followed, but while doing consolidated we have to remove all the transaction between two companies.

Shashank Kanodia: Sir, that is true, I am just talking about standalone business, so in standalone, how do you account for the purchases by that you made from SPS?

Mayur Padhya: Standalone as I mentioned we purchase HSC from SPS then that goes into our purchase account in Bodal Chemicals and then there are both possibilities there that either it can be captively consumed or it can be sold to the outsider.

Shashank Kanodia: So, our auditors allow to not showing this as stock in trade?

Mayur Padhya: No, there is no such requirement.

Shashank Kanodia: In the press release you have mentioned that we are going to purchase a new building for the company, so what will be approximate cost in all into that?

Mayur Padhya: It can be about Rs. 10 Crores or so.

Shashank Kanodia: So, this is an administrative block right?

Ankit Patel: Yes.

Shashank Kanodia: Sir, lastly on the forex part, we did witness some good amount of forex hedging, I think forex of hedging loss this quarter, so what was that on an account of?

Mayur Padhya: That was basically because of the fluctuation in rupee. In March when we close the year at that time rupee was at about Rs. 65 or so and when we closed in June that was Rs. 68 plus and whatever bank limits we are using that is in foreign currency, so we have to do MTM effect in the accounts that is the main reason for the loss.

Shashank Kanodia: Thank you so much and wish you all the best.

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

S. Vishwanathan: You had mentioned in the press release that you are going to invest in office building in Ahmedabad, what would be cost?

Mayur Padhya: About Rs. 10 Crores.

S. Vishwanathan: On Trion now we have increased to 59%, so totally what is the investment made so far?

Mayur Padhya: Total investment till date is about Rs. 34 Crores.

S. Vishwanathan: So, when it is not doing too well any reason to take it up to 50%?

Mayur Padhya: It is a chemical and cyclical business, we have been in this business, so it is a temporary phase, it should improve sooner or later.

S. Vishwanathan: And the new project, which you have done land acquisition has it been decided on which stream you are going to get into?

Mayur Padhya: No, that brainstorming is still on, we have not yet applied even for the environment clearance, and hopefully we should be able to conclude by next month or so.

S. Vishwanathan: What line you are going to get into?

Mayur Padhya: There are certain products, which are almost final, but what other products need to be added that is yet to be decided. The combination in which combination it is better to have integration on that we are working.

S. Vishwanathan: The identified products does it have any connection to your current line of products forward or backward?

Mayur Padhya: Yes, definitely. It is kind of required. Let me give it to Mr. Ankit, he will able to better explain it to.

Ankit Patel: We are really working on that since a longtime now, it has been already two, three months since we are working on the combination of products that we want to do that obviously all the products has some sort of a connection with our existing setup. We do not want to go into something totally new. We are obviously creating captive consumptions across our existing model and the new model, so by about end of next month will definitely be able to apply for the clearances with the department, so once we go through that we will be able to disclose to the market as well what we are planning to do.

S. Vishwanathan: So, predominately it is going to be backward integration?

Ankit Patel: Backward forward both, some products will be used in our existing products and we will be using some of our existing basic chemicals into our next product as well at the new site.

S. Vishwanathan: How has liquid dyes done this quarter?

Ankit Patel: Liquid dye is actually finally doing better now. We have been able to do better than our average in the last few months and we have done more than 400 tonnes of quantity last quarter that, so that is much better that what we were doing earlier, so we are also hoping for the next few months we are working in the better quantity as well so we finally seeing improvement in the liquid dye.

S. Vishwanathan: Last year fully you would have done about 1,300 metric tonnes, right?

Ankit Patel: Yes, it is about 1,000 plus tonnes last year and this year in the first quarter we have done about 448 tonne.

S. Vishwanathan: As other participants have been asking you if you give the sales volume that will be very helpful, dyestuff and dye intermediates?

Ankit Patel: We will definitely consider that and we will definitely workout that so we will try to give that from next time onwards.

S. Vishwanathan: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Good evening gentlemen. Since dollar is favorable average DI and DS price both are up Q1 and Y-o-Y as will and stable RM prices, which is basic chem prices should we expect bumper results for the next two quarters at least two quarters, what is you sense there?

Mayur Padhya: Current quarter is going good and as far as rupee depreciation that is also helping us, but we supply to rather our intermediate supply is to limited countries and world over if we look at India and China are the main two countries, which supply to all the world, so whosoever country is buying from India and China are also closely monitoring our currency, so whenever there is a huge depreciation in rupee we have to pass it on to our customers also, but definitely better effect is there in realization.

Ankit Gor: Some sense on this in rising dye intermediate scenario is not it more profitable to sell DI more and less of DS since DS take around two months to pass on the price entirely what is your sense, how should one look at this scenario?

Mayur Padhya: Theoretically, what you have said is correct, but as Mr. Ankit mentioned initially that we are producing almost 25% of the India's production in dye intermediates so our quantum is huge and if we start selling totally then there will be huge supply in the market and prices will not remain better which is at present, so we have to trade off between production and captive consumption for dye intermediates. It is not that we can totally convert it with the dye intermediate to same.

Ankit Gor: Obviously I did not mean totally conversion, but?

Mayur Padhya: Yes, to some extent we have been doing.

Ankit Gor: My one question this would be second last question on one thing, you see dyestuff realization, which is per kg is around Rs. 247 while dye intermediate all put together realization was Rs. 272 per kg in this case even if we add conversion charges to dye intermediate this Rs. 272 plus something and in that case dyestuff is just Rs. 240 to Rs. 250 sort of per kg realization and top of it we are making profits and realization growth on dyestuff, so are we transferring dye intermediate at arms length within our company how it is?

Mayur Padhya: The point, which you have noted, is correct. Here we need to understand that 1 kg of dye intermediate can produce about 1.5 to 2 kg of dyestuff.

Ankit Gor: Sir, I understand that, but even after doing that exercise probably we should end up making loss in dyestuff, we should end up doing less profits in dyestuff right, less profits because intermediate prices are already up and if we supply this intermediates in the market then probably we would have got higher realization?

Mayur Padhya: Yes, there is something in the loss of profit you might be referring, but as I mentioned earlier we try to change the mix to some extent and whatever is permissible ratio to that extent we do, but as we mentioned earlier also that we are booked with say one or two months for dyestuff order also, so we need to supply to dyestuff manufacturer also.

Ankit Gor: I totally agree with dyestuff, but when post China turmoil in 2015 all the Indian producers have shifted to spot prices for dye intermediates right?

Mayur Padhya: Correct.

Ankit Gor: So, how come on May 15, 2018 probably anywhere between May 15, 2018 and May 20, 2108, the prices of dye intermediate had started shooting up?

Mayur Padhya: Correct, we do consider long-term relationship with our customer, so whatever order we have taken, we supply that, if there is a loss we do supply to that, but in this case there is loss, but loss of profit, yes it is there theoretically.

Ankit Gor: What would be the supply at the highest rates? Did we supply at Rs.700 per kg at H-acid, what was the highest billing we would have done for H-acid?

Mayur Padhya: That data I do not have at present, but it can be.

Ankit Gor: Last question from my side, you said demand is slowing down in dye intermediate not that great, can you give us some more detail about demand slowing down what are the reasons since China is closing down, how can demand are the textile producers have slowing or procuring dyestuff how it is?

Mayur Padhya: Textile producers are mainly in worldwide if you see that is in Turkey, Bangladesh, Pakistan, etc., and recently the Ramadan is there, so that also affect the pricings and it is a cyclical industry, so cycle is there.

Ankit Gor: Obviously, but in the light of China closing down and not starting in the same intensity probably demand if you can give us proper probably the demand mismatch or supply mismatch that will be helpful, Ramadan was five to six months kind of scenario where actually all these guys have slowed down?

Mayur Padhya: No, Ramadan was just few days before, in June or something like that.

Moderator: Thank you. The next question is from the line of Naushad Choudhary from Systematix Shares. Please go ahead.

Naushad Choudhary: Thanks for the opportunity again Sir. I missed out on this part that you have talked about your SPS processor operations, if you can share how much volume period there and what was the revenue contribution in this quarter?

Mayur Padhya: Revenue contribution was Rs. 9 Crores.

Naushad Choudhary: And how much volume we did there?

Mayur Padhya: Volume it can be about 300 tonnes or so.

Naushad Choudhary: Equally divided in H-acid and Vinyl Sulphone?

Mayur Padhya: Only H-acid, Vinyl Sulphone plant has not yet started and initially for about 50 days plant was not working even for H-acid.

Naushad Choudhary: And what is the reason why Vinyl Sulphone has not yet started?

Mayur Padhya: There are some technical issues for supply of Ethylene Oxide from Reliance to our site and we are trying to resolve that, but yet we are not able to resolve that some governmental permissions, etc., is there and that is why it is taking time.

Naushad Choudhary: When can you expect this because it is long due at the time of acquisition this was the major issue I guess with this plant, the supply for the raw material right?

Mayur Padhya: Yes, it was there but as I mentioned some governmental permissions are there, so it is now difficult for us to commit any date.

Naushad Choudhary: Lastly Sir, last year if my number is correct we did around Rs. 50 Crores of turnover there in SPS processor is this correct number?

Mayur Padhya: No, last year it was more than Rs. 70 Crores.

Naushad Choudhary: What was the profit there last year in SPS processor?

Mayur Padhya: Last year there was no profit. It was about Rs. 2 Crores or so loss was there.

Naushad Choudhary: So, what have we done in this financial year that quarterly run rate if I see we have gone down again Rs. 70 Crores to 9 Crores in this Q1 and even though we have made profit, so what different you done in this Q2 turn it profitable?

Mayur Padhya: See, mainly prices of finished goods has improved.

Naushad Choudhary: Just in your dye intermediate there is no increase in prices in fact the overall year have down 4% to 5% year-on-year in the dye intermediate prices?

Mayur Padhya: The product, which we are manufacturing over there that is H-acid and prices of H-acid has improved compared to last year, that is the reason we have done better.

Naushad Choudhary: If you can quantify, how much percentage of improvement you have seen in this quarter, realization improvement?

Mayur Padhya: For H-acid our last year's average price was about Rs. 355 and for the June quarter the average realization was about Rs. 387, so that is the main difference.

Naushad Choudhary: Thank you so much.

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

S. Vishwanathan: In Vinyl Sulphone what was the Q1 average realization?

Mayur Padhya: Q1 average realization was Rs. 255.

S. Vishwanathan: And for H-acid you said 3, I missed that number?

Mayur Padhya: Rs. 387.

S. Vishwanathan: Again you had mentioned this briefly for the next nine months what is the growth you are anticipating either in volume terms or value terms?

Mayur Padhya: As far as volume is concerned, we are definitely going to gradually grew better in dyestuff because new capacity is now functional and as far as value is concerned it all depends on the prices, but it is definitely that we are going to do better compared to last year.

S. Vishwanathan: Thionyl chloride, when do you see the commercial production?

Mayur Padhya: We are expecting that to start by October.

S. Vishwanathan: This is captively used from H2 it will add to your margins?

Mayur Padhya: Yes, at the optimum level, we will use about 30% captively and balance about 70% we will sell in the market, so initially most of the production goes captively.

S. Vishwanathan: So, that is the total investment of Rs. 45 Crores right, Rs. 15 Crores you spend last year and Rs. 30 Crores you are going spend this year?

Mayur Padhya: Yes, correct.

S. Vishwanathan: Basic chemicals, this quarter I think we have seen higher realization right may be Sulphuric Acid or something like that, so do you see the trends helping you in the next few quarters also?

Ankit Patel: Yes, specifically are also doing better right now because of the Sterlite aluminum plant shut down, like copper plant shutdown in Thoothukudi in Tamil Nadu because of which Sulphuric prices, which used to be in the average of around Rs.4 in last two to three years they have gone up to around Rs.8 to Rs.10 per kg and that plant has been given up permanent closer, so let us see what happens there. If it is permanent close then it would be a good time for us, sulphuric manufacturers so definitely give good realization right now.

S. Vishwanathan: We do have some excess capacities right like what we required something for captive, but we also have capacities that we can sell outside?

Ankit Patel: Yes, we have about 40% captive and the remaining 60% we sell in the market, but normally we have a utilization of around 90% plus there.

S. Vishwanathan: Sorry, captive usage is 40% and normally you sell outside 60%?

Ankit Patel: Yes.

S. Vishwanathan: And what is the 90% number?

Ankit Patel: 90% number is the capacity utilization.

S. Vishwanathan: 90% is the capacity utilization, which means this was going into some lapsa also right so that you may stop and you may sell in the market itself?

Ankit Patel: Yes.

S. Vishwanathan: This is also going to add to the profitability at least for this year, I mean as long as Sulphuric Acid prices remain high?

Ankit Patel: Yes.

S. Vishwanathan: What is the capacity we have Sulphuric Acid alone?

Ankit Patel: Sulphuric Acid plant capacity is 500 tonnes per day, but that does not only produce 500 tonnes of Sulphuric Acid, the actually produces the combination of products, so there are Sulphuric Acid and there are four other products as well produced in the same plant, so Sulphuric Acid it can go as high as to 50 tonnes per day, but naturally the other product prices are higher than Sulphuric Acid, so they are all correlated to Sulphuric Acid and the lowest product is always the Sulphuric Acid, so Sulphuric Acid is Rs.8 and the other products are around Rs.10, Rs.12, Rs.13 per kg.

S. Vishwanathan: Has the prices of Sulphur also gone up?

Mayur Padhya: Prices of Sulphur has been in the range of around Rs.10 to Rs.12 and last about two to three months, so traditionally last three to four years it has gone as low as Rs.6 and as high as Rs18, so on an average I would say last four years Sulphur average price would be around Rs.10 per kg.

S. Vishwanathan: So, Sulphur has not gone up is proportion it has not gone up significantly?

Mayur Padhya: Not in the proportion of the finished good prices.

S. Vishwanathan: I think this is a good development. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Anand from AA Investments. Please go ahead.

Abhijit Anand: What is the EBITDA margin on the consolidated basis and do you expect this to sustain over the next fiscal FY2019?

Mayur Padhya: EBITDA margin for the last quarter was 19.7% on standalone basis. Consolidated number would not change much because there is no sales in Trion and SPS EBITDA was about 15%.

Abhijit Anand: So, again it would be tad lower than the 19.7 figure?

Mayur Padhya: Yes and as we have been guiding to the market that we are expecting at least 18% EBITDA once our all new facilities become optimum utilized, so till that time there can be some fluctuation because of China and normally what we have seen is positive fluctuation, no negative fluctuation we have experienced.

Abhijit Anand: By when we can expect optimum utilization by FY2019 or FY2020?

Mayur Padhya: By FY2020.

Abhijit Anand: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Saket Saraogi an Individual Investor. Please go ahead.

Saket Saraogi: I had a question regarding the sales volume growth, could you share because it is in the production figures, but can you help me with the volume growth?

Mayur Padhya: Sales volume data we have not given. The data what we have given is only production.

Saket Saraogi: What I wanted to know because the sales growth, which I have seen 30% growth year-on-year, so what quantum is because of value and what quantum is because of volumes, so that is not clear from the presentation?

Mayur Padhya: So, volume growth is nearer to the production growth, balance is the price effect.

Saket Saraogi: So, one more thing is like this export growth have a significant jump in the export, so was there any specific reasons for that or it is sustainable this kind of export?

Mayur Padhya: That is mainly because of China disruption and our dye intermediate export to China that is the major contributor in this higher growth in export. We are not expecting that to remain constant for coming quarters, that can down to some extent.

Saket Saraogi: So, could you throw some light on the China situation as of now as per your knowledge its position is like?

Ankit Patel: Since March there have been few shutdowns in some of the major factories in China and they continue to be there. I am not sure when they we will be able to restart, but if I talk about the overall situation then the government is definitely making very strict policy and with time they have a multiple-year plan to execute the entire policy. They are making changes on stopping the manufacturing near the cities so things like that are happening and I think this is just to start, so I do not think that the industry is going to stop completely, but it will definitely experience such kind of stoppages in different parts of China for the next coming few years.

Saket Saraogi: So, this is something, which you think can sustain for some time to come?

Ankit Patel: I definitely think so, I mean it will not be a continuously same situation, it may go back in a couple large unit starting again and that may affect the intermediate prices to go down that has been happening since the three to four years, but I do not think the industry will go back completely it was running may be four years back or five years back I think that is not possible at all now in China.

Saket Saraogi: I wanted to know some three to four back there was a sudden rise in the price of this intermediates and all and after that in Q2 the price has fallen back significant again, but from last three to four we are seeing that the prices they are being maintained, so what I wanted to know once the China suppose after these regulations all the plants, they make the affluent treatment plan and thing after that once their production level stabilizes in China, will the prices tend to fall significantly or this time it would be different, what is your take?

Ankit Patel: I think it will not fall significantly. The situation I think will not go back to what it was four to five year back. There are few reasons one reason is the growth has been difficult to come in India because the policies here have also been very strict. The new permissions have only been given on the basis of zero discharge. Gujarat government is restricting the chemical production areas to only one area in Gujarat, so because of these reasons the growth is not coming that easily in India and China again they are working really hard on this environmental policy so the growth there is hardly coming last four years, so it is not only about the existing units which are operational or not. It is also about whether any growth is coming by industry so because of that the supply demand gap is always remaining that is why the last four years even after the units in China start to work again the demand is still good and last three year traditionally now the scenario has actually reversed that you know intermediates are being exported to China and not only intermediates even the dyestuff. China is always self-sufficient and dyestuff have also started exporting to China, so it is not the few shutdown and they will start completely again. It is actually a question of survival because they are on the banks of the river and where there is saying that they will not be allowed any of the chemical manufacturing activity on that river, which is a Yangtze river, which is the third largest river in the world.

Saket Saraogi: So, one thing in the presentation you have been talking about the expansion of the margins and I you are hope of maintaining this margin increase, so by this margin increase you have a EBITDA margin of 19.7%, which you have made this quarter that seems to sustainable going in the future or what that it means?

Ankit Patel: Traditionally, last two to three years we have been doing about 18% to 20% margin, but there have been quarters where some of the intermediate prices have been extraordinary because of the effect, I think we were able to do about 19% to 20% regularly, but what I feel is that with our kind of an integrated setup we are confident that we can do 15% plus EBITDA levels, but with our current development, which one is our captive power plant plus our Thionyl Chloride, which is again integrated product and as well as our dyestuff integration Brownfield project that we have recently started with these three being at a good capacity utilization level that should easily add another 3% to 4% margins, so even if the prices are normalizing the intermediate segment I think after the execution of all three projects we will be able to continue our 18% to 20% of EBITDA margins.

Saket Saraogi: Sir, if there is no value growth that is what kind of volume growth our sees generally year-on-year, what kind of growth this industry has?

Ankit Patel: The main consumption of all our products are into textile industry. They are all human consumed area, so we have noticed around 4% to 5% of annual growth coming from the textile industry, so our industry on an average grows about 5% each year.

Saket Saraogi: Thank you so much.

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

Mayur Padhya: Thank you very much participants. If any person's question remains unanswered, they can contact us offline, we will be happy to answer that. Thank you once again.

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

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Note: This transcript has been edited to improve readability

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