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"Bodal Chemicals Q1 FY20 Earnings Conference Call"

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MANAGEMENT: **MR. ANKIT PATEL – EXECUTIVE DIRECTOR, BODAL CHEMICALS**
MR. MAYUR PADHYA – CFO, BODAL CHEMICALS

MODERATOR: **MR. DIPESH MEHTA – SBI CAPS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Bodal Chemicals Q1 FY20 Earnings Conference Call hosted by SBI Caps Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 SBI Caps Securities. Thank you, and over to you, sir.

Dipesh Mehta: Thank you, Tanvi. Good afternoon, everyone. We at SBI Caps Securities are pleased to host the first quarter FY 20 earnings conference call of Bodal Chemicals Limited. We have with us the management team of Bodal Chemicals represented by Mr. Ankit Patel – Executive Director and Mr. Mayur Padhya – CFO. We will begin the call with opening remarks from management and followed by a Q&A session. So without much further ado, I would like to hand over the proceedings to Mr. Ankit. Over to you, sir.

Ankit Patel: Thank you very much, Dipesh. Good evening, everyone. Thank you for joining the Q1 FY '20 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 have got an opportunity to see our financial results and the analyst's presentation filed with the stock exchanges and is also uploaded on our website.

First, I will highlight our overall business strategy and quarterly performance and detailed financial performance will be taken up by Mayur later on.

On the business strategy front, we are gradually moving towards a global Dyestuff player. We have added 18,000 tonnes per annum Dyestuff capacities in the last 2 years and further expanding it by 24,000 tonnes per annum over next 2 to 3 years. We have opened up several warehouses and marketing offices in India and overseas as well, which we will be adding further in future as per requirements.

We have completed acquisition of 80% stake at Sener Boya in Turkey, which will be our marketing base for Turkish and surrounding countries. We will be increasing the share of B2C in overall Dyestuff business going ahead. All these efforts will increase Dyestuff's share in total revenues, further integrate our business and leading to stable margins and increase in the profitability in the coming years.

Our Dyestuff capacity expansion over the last 2 years have started bearing fruits with 24% year-on-year growth in Dyestuff production for Q1FY20. Our VS production was impacted by short-term supply disruption in ethylene oxide during the quarter. Ethylene oxide is produced by only Reliance in India, and there was a less production. The supply has now been normalized since last 15 days. Our total production for quarter Q1FY20 stood flat at 59,985 tonnes. Our liquid Dyestuff production was more than 350 tonnes per month during the quarter. We are gradually increasing the production there and see a scope of improvement in near future.

As you are aware, the growth and profitability of Indian corporate has been lowest during Q1FY20 in the last 3-4 years and Bodal is not an exception. The sales price of Vinyl Sulphone was down year-on-year from 255 to 229. Average H-Acid price for the quarter was at Rs. 414 per kg. Due to slowdown in economy and consumption, our standalone total income declined by 8% year-on-year to 327 crores.

Our standalone EBITDA margins continue to be quite stable due to our integrated model. Our standalone PAT for the quarter stood at 29 crores, which was impacted by lower revenues and margins. Going ahead, we remain confident of improving revenues and profitability backed by several initiatives which we have taken and we remain confident of long-term growth prospects of the company.

Thank you. And now I would like to request Mayur to take up the financial performance in detail.

Mayur Padhya: Thank you, Mr. Ankit. Good evening to all. On the financial front, our standalone total income declined by 8% year-on-year from Rs 3,556 million to Rs 3,269 million which was impacted by demand slowdown in the economy due to lower consumption. Our standalone EBITDA, including other income, stood at Rs. 524 million in Q1FY20. Standalone EBITDA margin stood at 16% for the quarter, which was lower due to lower VS production and prices compared to last year.

Our finance cost has increased to 23 million, mainly due to higher utilization of working capital limits because of higher Dyestuff business. And net profit for the quarter stood at Rs. 288 million. Our exports stood at Rs. 1,396 million, and its share in total revenue was at 44% in Q1FY20, an improvement of 1% over last year.

On the subsidiary front, SPS posted revenue of Rs 270 million, with EBITDA of 17 million in Q1 FY '20. We expect VS plant at SPS should come by end of first half of FY20. And after that, SPS should contribute to overall profitability. Trion posted loss of 26 million in Q1FY20, due to lower production and sales. We are constantly working to minimize the losses at Trion.

Thank you. And now I open the floor for question-and-answer session.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Just wanted to take an update in terms of your Dye Intermediates. We had seen that the production has declined because of the disruption in the raw materials. The scenario was in first quarter, what is the situation right now? Is the production still running low? Or how are the things going to be in near future?

Ankit Patel: So it was only one raw material that is one of the key raw materials for Vinyl Sulphone, that's the only supplier is Reliance. So for about 2 months, there was a production cut from Reliance's end. So overall industry's production of Vinyl Sulphone has gone down. But last about 15 days, the supply of that raw material has been normalized. So now for Vinyl Sulphone production in the industry has been normalized. And all that intermediates were not affected by that.

Jatin Damania: So that means for the Vinyl Sulphone we might see an impact in the Q2, also? Because July production must be quite lower.

Ankit Patel: Yes. To some extent, in Q2 also, there will be some effect.

Jatin Damania: Sir, because if you look at it, because of this U.S.-China trade war, I mean China was out of the system in last 3, 6 months. And reading a few various media reports, it seems that a couple of the Chinese capacity has also come back onstream. So how do you see pricing going out as far as intermediates is concerned?

Ankit Patel: As of now even though we hear about any new capacities or old capacities coming back in China, there are no competitive offers of intermediates to the Indian market. So the scenario still remains the same. And there is not too much of competition that is there, which is coming from China. There is definitely competition within India. Because of this good pace, I'm sure new capacities have come up and some have also expanded. So it was actually the overall slowdown, mainly coming from the textile sector is affecting our sector currently. The textile has really slowed down. And overall, also, if you notice globally and especially in India also, we feel that overall industrial output has also gone down. This scenario has been I think around for at least more than now 2 to 3 months. So I think it's one of those cycles where the production and the demand and supply and all that have been affected.

Jatin Damania: Right. Because I was just listening to your counterpart's conference call, they are saying that VS realization has dropped down as low as to Rs. 180 per kg.

Ankit Patel: Yes. I mean VS has come down to Rs. 190 per kg. H-Acid has also come down, it has come down to around 370 levels. They both have corrected here, you are right because I see the prices have come down drastically that has happened in a short time. But I think still the good thing is that the raw material cycle is also, as you can say, at the lowest level. So the selling price has come down maybe by a healthy percentage, but definitely the raw material cycle is also at the bottom because of the overall demand/supply, overall demand being slow. So I think there will not be a direct effect of that number to the margin because of the raw materials being available at cheaper rates.

Jatin Damania: Can you quantify in terms of the percentage because if you look the VS and the H-Acid are down almost 15% to 20% on a sequential basis, which is I'm talking about current rate as compared to Q1. So how much the raw material prices would have been corrected during the same period?

Ankit Patel: It is very difficult to tell because in Vinyl Sulphone we have 8, 9 different raw materials. In H-Acid, only 1 or 2 are common. H-Acid is an entire different piece of raw material. And there the number of raw materials are more than 15. So the scenarios are different. And most of them, some of them are connected with the global trades. Some of them are connected with the global supply-demand of petrochemicals and some of the refinery chemicals. So they are all connected to different areas. For example, one of the main raw materials for H-Acid is Naphthalene, that is one of the byproducts of a steel plant. There, the steel productions can make a difference there.

Jatin Damania: I just wanted to understand the impact of the volumes of VS because we'll be starting the SPS facility in the second half, and this fall is quite sharp as far as the overall realization is concerned in just last 14 to 15 days. So how do we see the impact of the same on our standalone number as well as consolidated number?

Ankit Patel: I think one of the reasons why the fall has also happened is all the raw materials have also come down. There is also a demand issue in all our raw materials, that's why most of them have all corrected, they are also at very bottom prices. One of the reasons that proportionately our Dye Intermediates selling prices have also come down. So there may be some effect on the margins of the dye intermediate sale, but it will not be a complete effect of 15%, 20% of the selling price that has come down. I think it should be marginal, not too much.

Jatin Damania: So on the consol level we reported 13% EBITDA margin, it was actually 100-200 bps decline, or it will be not that much as well?

Mayur Padhya: No. See, consol level, 13% is because we have started the trading activity also. And there is the 29 crores revenues from trading, whereas the margin is very less. At the same time, at Trion also there is very less margin, rather negative margin. So at the consol level, these 2 effects are there because of that consolidated EBITDA is lesser. And coming forward as mentioned by Ankit bhai, raw material prices are also down. And that will maybe affect our topline. Topline should not be affected proportionately. This is what we are feeling at present.

Jatin Damania: Okay. And I'll come back to other questions. Just 2 questions. One is if you help us with the profit numbers of SPS and the total production and sales volume for Trion? SPS, you put a 17 million of EBITDA, what is PAT for SPS?

Ankit Patel: The PAT of SPS in the first quarter was almost nil because still we are producing only H-Acid there. So there was no loss, but it was around breakeven level. But our Vinyl Sulphone plant, we are targeting to start in 1 month time. We were waiting for the tankers to bring offset from Reliance. Now that our tankers are coming in a couple of weeks. So we are targeting to start the Vinyl Sulphone plant which is ready to start. So once that starts, that will start giving some decent margins.

Jatin Damania: And sir, on Trion Chemicals coming from last couple of quarters, we are saying that probably we'll achieve a breakeven by end of FY20, it was first half then FY '20. Now I mean, looking at the current scenario, what will be the reality as far as the Trion Chemicals is concerned?

Ankit Patel: Actually, there is some new development there in Trion Chemicals. So we have been producing since now a year. And there have been different volumes that we have produced on a monthly basis. There were also a couple of small safety-related issues. So there is a conclusion from the management that because of a few reasons, there are some technical changes that need to be required because the entire plant was done by Chinese. And our plant is the first time in India. So there are no experienced or technical people related to this product and this technology. So what we have concluded after this 1 year of production in different parts is that there are some issues related to safety and there are some improvements that can be done technically. So we have actually identified another expert who has worked in a similar technology and plant. And we are going to take that help, and we are going to make these changes in the plant. So that we are going to take it up very soon. So we will be taking, I would say, a shutdown there for some time.

Jatin Damania: Is it safe to assume that for this financial year unit will be a loss-making for us, Trion?

Ankit Patel: It is a loss making for us. Earlier, the problem was something else actually. Earlier, the problem was the volatility in the raw materials. So caustic prices went from Rs. 35 to Rs. 50. Again, they came down to 35-37 levels, again they went back to 45-47 levels. And chlorine also went from negative Rs. 6 to plus Rs. 7, Rs. 8. And the third raw materials we have to re-procure from China, where there was also some volatility. So this was the issue when we did the entire trail for 1 year, so much of volatility. The product quality was good. We already supplied to some of the largest buyers in the U.S. The product has been approved, but we were not able to continuously produce and ramp up the capacity. So in this 1-year journey, we identified many issues. And now instead of trying to do a temporary or on a short-term basis, we need to actually properly fix up all the small issues that we have identified. And the prices of caustic has lessened down and it is now expected to be at normal level because all the issues globally that has happened in the caustic industry, all have been come down and all have been sold. So now I think going further, the product I think will go through less of volatility of raw materials.

Moderator: Thank you. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: In Q4FY19 results, you had mentioned that we are going to do a CAPEX of roughly 1,168 crores over the next 3 years. So what will be the CAPEX amount for this year, for FY '20?

Ankit Patel: It has not been fixed yet because the CAPEX cycle will probably start somewhere around Diwali. So it will probably have an effect of 3-4 months, but in the beginning case we will not be making big outflow because it will be related to land development and some of the required payments that we need to do to the GIDC and for infrastructure and etc. So there is no fixed outflow as of now for this financial year. I think the large sum of outflows will be from the next financial year only. We will have a better idea by next quarter, in the next concall.

Kishan Shah: And the bifurcation that you had given that you will be borrowing 700 crores out of the total 1,168. So is this going to be entirely domestic borrowing? Or would there be a portion of foreign borrowings?

Ankit Patel: Mostly, it will be domestic borrowing only. There are some machineries that, but it's not a very big part of the total CAPEX. But there are some machineries that we'll be importing. For that, we can consider some borrowing foreign currency loans. But most of it is going to be local currency, local loans.

Kishan Shah: And could you just repeat the prices for the H-Acid, Vinyl Sulphone, sulfuric acid, if it is possible, for the quarter 1 and the current prices?

Ankit Patel: Today's price of H-Acid is around Rs. 370. Vinyl Sulphone is around Rs. 190. And sulfuric acid is around Rs. 6.5.

Kishan Shah: Okay. And what was it in quarter Q1?

Ankit Patel: Quarter 1, about the same because we have not seen much volatility as of now. And quarter 1 H-Acid price was around 414 levels. And Vinyl Sulphone was around 229 level.

Moderator: Thank you. The next question is from the line of Shashank Palan from Rockstud Capital. Please go ahead.

Shashank Palan: I wanted to know that we are expanding more into Dyestuff, and that is a plan that going ahead, we want to expand in Dyestuff. I wanted to understand that why are we doing CAPEX majorly what you've announced in March in caustic soda? What is the proportion of the requirement in Dye Intermediates and Dyestuff?

Ankit Patel: Yes. Caustic soda is actually, it has been part of our plan for now 4 to 5 years. There are a few reasons why the company has decided to go for this thought. Earlier, we did not go for it because earlier we had a long-term debt, which gone to CDR, and we're sitting with a lot of debt. So earlier, in around 2015-16, we decided to pay off our long-term debts. And then after that we decided we still had some 2 or 3 other plans of expansion of Dyestuff and some other plants at our Baroda unit. We wanted to be complete first before going to the larger CAPEX and also at the new site. So then we bought the land for our next phase of growth last year. And then now we have almost got the clearances and we are also dealing with the bank. So I think now we are at the business end of the entire process. And then we will start the execution of the projects around Diwali. The reason is very simple that one of the main bottlenecks in the industry is chlorine. Now caustic in India has a very good market. And also, globally, it has a very good market. But chlorine is always a pressurized product. So here the strong point for our company that we use a lot of chlorine. We already use a lot of chlorine and we plan to use more chlorine by the time we execute this project. So we have a 50% to 60% captive chlorine consumption which is a very strong point. So we again continue with our consolidated and integrated models. Though this does not relate directly with the Dyestuff industry, but we do have a good connection where we are also going to integrate our caustic supply. So for example, in 2017, '18 alone, we spent Rs. 17 crores more for the purchase of caustic compared to the previous year. So there's a lot of volatility, plus we use about 100 tonnes per day of caustic. So that's also around the capacity that we are seeing, therefore, also around 30% to 40% captive usage. Also, there is a product called HCL, hydrochloric acid, that is also produced in this plant. There also, we are one of the largest consumers of that product. So that we use it to produce our basic chemicals. So all these products that are going to be produced in that plant, we've been already using it in our existing business model. So that brings a good integration and caustic, chlorine both are very basic chemicals in the chemistry and they both integrate and they are some of the key supplies into many industries. So for example, caustic, big item for textiles, mainly for chemicals, also pesticides. Chlorine also is actually Indian chemistry; Indian markets are a bit behind in Chlorine. Chlorine has a lot of consumption, a lot of good value-added consumption across the globe, especially in Europe and U.S. So we feel that chlorine and caustic both will have a good future in India especially after this situation in last 5 years in China, Indian companies definitely have a good opportunity to set up some good business model and explore some good chemistry. So I think caustic and chlorine being some of the commodities which are involved in the manufacturing of most of these products. So we feel that it is a good area to enter.

Shashank Palan: Okay. So as you mentioned that near about caustic soda you would require only 33%. You've mentioned 300 TPD is the capacity that you want to come up where 100 is the requirement right now, whereas chlorine, I think, it might be also low. But why are we putting like a large sum of 700 crores into it? Because I think it's a generic product and people are expanding, right? If we require chlorine, we have other plants in Dahej itself who could supply us?

Ankit Patel: I'll give you an example in chlorine that we use chlorine thionyl chloride, for 1 kg of production of thionyl chloride, it requires 0.7 kg of chlorine. Now in our cycle, in the last few months, where we have been producing thionyl chloride. I have bought chlorine at minus Rs. 1

and also at plus Rs. 5. So currently, my supply is coming at plus Rs. 2.5. So there's such a fluctuation. Just few months ago, the price was plus Rs. 7. So I want to avoid this fluctuation and take the advantage of that. Sometimes, the situation maybe in favor because it has a lot of limitation of storage. Chlorine is an extremely hazardous product where there is a lot of restrictions about storing it. There are also a lot of restrictions about transporting it and using it. So because of limitations in the storage, no companies are allowed storages of chlorine. So whenever there is some pressure in the market, the prices temporarily moves to zero or minus. But then, again, it comes back to positive. So we want to take advantage of that. And then we'll be using it all by a pipeline. Not all, but at least half of it by pipeline. And same thing with caustic. So, in chlorine, we are already using around 60, 70 tonnes a day. And what we are planning to do with chlorine is we are going to take it up to around 150-160 levels. 300 tonnes, chlorine will be produced around 240 to 250 tonnes per day. Out of that, we want to use around 150 tonnes a day, by the time we execute this project.

Shashank Palan: Okay. And what is the plan of rest of chlorine and caustic soda that will be accessed for our company?

Ankit Patel: And just one more thing I want to add to your question about the CAPEX. So this 300 tonnes per day plant is actually can operate at around 360 also. The 300 is just a capacity that technology providers are guaranteeing to work at the best economical model, at the best power consumption. But actually, the same plant can operate around 360 also. So the CAPEX that we are showing that, at the same CAPEX, we can run the plant around 360-400 level also. So we are excluding that as well because obviously we want to spend the least possible money on the CAPEX, and we want to have the maximum capacity. And about the incoming capacities that are coming up, so obviously, I mean, the industry and these products are compared, they go through different cycles. So that is not in our control. When we put up industry, I don't think about 2- or 3- or 4-year picture. So now we have to think about 20, 30, 40-year picture.

Shashank Palan: Okay. Sir, just to get a sense of it, what is the chlorine amount that we are using right now in tons per day. Right now?

Ankit Patel: Right now on an average, we will be using around 40 to 50 tonnes. With our existing capacities, we can use about 80, 90 tonnes. With all the plants where we use the chlorine, if they run at an optimum level, you can use around 80, 90 tonnes.

Shashank Palan: Sir, this in revenue terms would be how much?

Ankit Patel: Revenue terms. If you take at an average around Rs. 2,000 per tonne also, and if you take 90 tonnes.

Shashank Palan: So that I will multiply and I will get through, that is okay.

Ankit Patel: Around Rs. 180,000 per day.

Shashank Palan: I understood your model that you want to backward integrate everything so that there is no raw material fluctuation that happens to you to a larger extent. So then do we expect that these margins of 17% to 18%, which we have kind of been in the range for the last 5 years, can sustain?

Ankit Patel: They can definitely sustain. If you look at chlor-alkali, if you remove the last 2 years, which was an extraordinary period, if you compare the chlor-alkali companies' numbers from 2010, '11 to 2016, which was probably the normal phase. There also, the EBITDA of those companies was around 30%-35%. So traditionally, chlor-alkali business EBITDA is definitely higher than what we already make. So once we start that, it will actually increase our EBITDA, instead of lowering it. And also, one more thing that we want to do is, we cannot identify some other products also, we want to explore some chlorine based chemistries, but we cannot do everything at the same time. So that's why we have taken up a large piece of land. So we want to integrate just like our Baroda complex, where we have a captive power plant to basic chemicals, intermediates to Dyestuff, and all the DTP and everything is all, it's an entire complex, which is all integrated, which creates a lot of savings for us. So again, we want to work on the same theory at chor alkali complex, which is now going to be just chlor-alkali plant, but in the longer, it is going to have some organic and inorganic project also which will be integrating. We are not planning to do anything which doesn't integrate with that chlor-alkali out of power plant. The CAPEX is also coming up because we are also doing large sized power plants to support power plant.

Shashank Palan: We don't actually provide right now currently the bifurcation of margins in all the 3 segments. So can we just get a hint of FY '19? What were the margins in Dyestuff, Dye Intermediates and Basic?

Ankit Patel: See, presently, what we are manufacturing is 3 divisions, but these 3 divisions existing are single and complex. So we are not bifurcating the margins for each division. So that's not possible at present.

Shashank Palan: Okay. So I think 50% is still sold outside, right? Like Dye Intermediates, 50% is captive, 50% is sold outside.

Ankit Patel: Correct.

Shashank Palan: So that 50%, okay, we don't calculate margins for that?

Ankit Patel: Correct. In Basic Chemicals division also, almost 45% to 50% is captive consumption. And in Dye Intermediates division also, similar is the captive consumption, so we are not calculating a different margin. All that is an integrated total model.

Shashank Palan: Okay. But just as a ballpark number, do we feel that Dyestuff has a higher margin compared to the other 2 products because it is the last end of the product line?

Ankit Patel: So if we compare the last 4, 5 years, then Dyestuff as a standalone product with lower margin compared to Dye Intermediates. But presently, Dye Intermediates is not doing that good. So presently, maybe both have a similar margin, but for us, when we produce Dyestuff, we kept intact Dye Intermediates margin and then we add the Dyestuff margin.

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

Tanmay Mehta: I just wanted to know on the slowdown. If I look at the exports proportion, it has gone up. So could you just give some more color on where the slowdown is? Is it domestic, or how is it? And are we facing some issues in spot contracts or long-term contracts?

Ankit Patel: So it's more of a temporary kind of a slowdown, which has happened in the last, about, 2 months. I think, overall, the problem is with the textile industry. But there's also, I think definitely, the problem that is coming from the trade war where the overall production of Chinese companies that had been affected in their routine trade where the U.S. is a larger consumer, which has implied so many extra tariffs on many of the products. So I think, overall, there's definitely pressure on the Chinese, and it is being noticed everywhere, not only on the chemicals side, but all these other commodities. Commodities also are going through a lower cycle. So we feel that it's a phase where I think there's an overall slowdown in our case especially in textile, actually definitely plays the role. If you look at all the Indian textile companies, they are all going through a phase. I think one of the reasons why textile is going through a slow patch because they had a good 4 to 5 years' time. And there has been many new capacities that have come up in the last 3 years. Many players have expanded. New capacities have come up. So I think that's more of a consolidation time that is going on in the textile industry also. For our other, one of the main areas which is leather, we are the largest manufacturer for leather colored. There is also a slowdown in the auto sales globally, not only just in India. I think automotive sector is also going a bit slow, so I think that could be one of the reasons why our dyes, Dyestuff that goes into leather. So there are a few reasons like that. I think that all combined have ended up being put us in a bit of a slowdown.

Tanmay Mehta: Okay. And sir, just on the raw materials part. If I see gross margins are down sequentially, so what could be the reason? I mean any particular apart from ethylene oxide, how are other raw materials moving? And how are they playing out right now?

Ankit Patel: So right now, actually, the raw materials are, I would say, most of the raw materials are going through the bottom cycle. So like there are definitely good opportunity to buy some raw materials, maybe try to stock some raw materials in our usual cycles. But then again, the slowdown is there. So you never know. I mean they feel like 5-year bottom or 10-year bottom, but you never know and we don't want to take any chances, so we'll probably just continue with our routine strategies. But definitely, the cycles are on the lower side, even coal. Coal is at the lower side. Most of the petrochemicals and then those lean chemicals that we buy, they are also going through the lowest prices or maybe around 10% more than the lowest price in the last 5 years.

Moderator: Thank you. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: Could you just give a sense on how our marketing units, the subsidiaries are performing in China and India? And has the performance reflected in this year? Or will it take some more time?

Ankit Patel: So in India, the strategy is very clear, that there are a couple of brands which do really well in India since many years. They are more than 30 to 40 years old Dyestuff players. They're also the leading Indian players right now. There are also some MNC brands that have been ruling Indian markets. But the MNCs have been losing their stake in Indian markets and also globally. But Indian, a couple of larger players have actually done very well in the last 5 years also, and they were able to increase their stake. But we are on the same strategy. We actually came in really late in the Dyestuff industry because our history goes back with the Dye Intermediates. And then we started in mid 2000, we started with the Dyestuff. So our journey has been very short. I think this short journey also we have achieved big numbers in the volumes. What we now target to do is we try to realize the maximum margins in the sales of dyes, which can be achieved by doing some B2C business, which is the normal practice for a couple of the largest players in India. So we do have a few depots across India. We have distributors in regions appointed across India. And that has been the journey for more than 4, 5 years now. And our volumes in Indian marketing domestic set-up has been growing. So that is our long-term target. There are always successful companies in the Dyestuff sector, domestic or international. They have been successful because of the brands that they were going to create and also look at the distribution set-up that they were able to create. So we are there. We are already successfully doing it. It's already been a few years now. So that's for the India part. China, it's too early to call. We started very recently. We are going to start selling some materials very soon. We plan to maybe start with some of the commodities which are probably easier to start with. But for China, we don't have a clear strategy as of now because we also procure a lot of materials from China. So the idea to have our presence in China was to explore the possibilities because of the slowdown there, because we feel that the industry will not come back aggressively again in China. So what we feel is there may be an opportunity to supply to the Chinese companies because, again, China has, in fact, the largest textile market in the world. So that was the idea. And it's too soon. So it's a multipurpose company that we have opened that we know which can help us to source chemicals and also explore the marketing possibilities there. But we are planning to sell and start some deals in China very soon of Dyestuff.

And Turkey was a very strategic call because Turkey, again, is one of the largest textile processing hubs in the world. And it's a very good market where we have been working for more than now 12, 15 years. We earlier had an idea to open up our own subsidiary and start selling in Turkey and surrounding markets. But the company that we have taken stake in, Sener Boya, we have been working with them for more than 10 years and interestingly, their next generation was not interested too much into this business. And since we share a great relationship with them for many years, this was just a coincidence in a way that said that we can try some joint venture or something. So that's how the entire idea came up. So our idea was they are already without any manufacturing of their own supply or any kind of supply from India or China. The company has been doing very decent in Turkey for many years. So we have gone with a strategy where we bought a stake, 80% stake, but they are going to be present in the company. They are going to help us for few years. They're going to make sure that they are around and expertise this trigger trade in the surrounding countries. But I think the biggest plus point will be able to add volumes very easily because we have our own Dyestuff and not just Dyestuff, but it's going to be coming from the most integrated Dyestuff company. So we will have all our support of the largest range of Dyestuff with all the raw materials of intermediates availability.

So I think that will play a very strong model for us, where the expertise of our other partners, Turkish partners who will be there who will help us achieve more and more volumes. And our manufacturing model is going to support that. So I think we are targeting around 25% growth annually starting from next quarter. So I think that should yield some good results in the coming future.

Moderator: Thank you. We have a follow-up question from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: I had a question. So what would be our incremental revenues post the entire CAPEX in the next 3 years? I mean like what's the ratio of incremental revenues to the total CAPEX that we are doing?

Ankit Patel: So that is, again, difficult to tell because the prices of all the chemicals have been too volatile. Today's prices, Rs. 28, Rs. 29. 1.5 months back, I would buy the product by 45 per kg. So it's very difficult to tell and we have not frozen up exact capacities also what we put up. But what we are targeting is that it's going to be at least about double in about 4 years', 5 years' time. Once that plant is executed and it is running at optimum capacity, it should happen in around 3 years from now. Parallelly, we are also going to add up the Dyestuff capacities here in Baroda and we are also going to add in subsidiaries and some sales should come from Turkey and also the addition of the VS plant at SPS. So all this put together, we are targeting double the sales.

Kishan Shah: Okay. So double the sales of what you have achieved in FY '19?

Ankit Patel: Yes. FY '19, was a little higher. Maybe previous quarter was an extraordinary, but yes, something like that, yes.

Kishan Shah: And sir, you mentioned in an earlier answer that you had to do some land acquisition for the expansion. So where was it? And what was the size of the land?

Ankit Patel: The size of the land is close to 5 lakh meters. It falls into a GIDC call Saykha. And that is neighboring GIDC of Dahej. And it also falls into the area, the region called PCPIR. So that entire region has been identified and got the clearance from MoEF, the Ministry of Environment and Forest. So the specific purpose from the government is to develop the entire region, which is around 70 square kilometers, is only for the chemicals and petrochemicals purpose. So they have already got the clearance. And what I need to say is we've got the land that's probably in the best possible location in India.

Kishan Shah: And one more question. What is the proportion of textile sales out of our total sales textile and automobile?

Ankit Patel: So our total sales in Dyestuff, what we do is around 45% sales come from our Dyestuff, and out of which, about 15% would be through leather dyes. But there's no automobiles, but it's any application that goes into leather. So about 10% to 15% would be in the leather application and again, about 15%, 20% to the textile.

Moderator: Thank you. The next question is from the line of Shashank Palan from Rockstud Capital. Please go ahead.

Shashank Palan: I just wanted to know, seeing the current numbers of Q1, I could see that Dyestuff still has a lower capacity of near about 60%. We've done an expansion in last year itself. So when do you feel that this will rise? Like when could we reach the higher level of utilization there?

Ankit Patel: So we are continuously putting efforts for that. So to support that, to support our manufacturing capacity's expansion, we are continuously adding more and more marketing setup as well. So I think the setup that we've got there in Turkey, I think that will definitely give a big boost. Domestically also, we are adding source. These are backside processes. So the optimum level utilization is not more than 75%-80%. So we are already at not a bad level. But obviously, the continuous effort we believe will achieve at least about 70%. And also, parallelly, it's actually more of a continuous process for us for at least the next 3 to 4 years, where we will keep on adding the capacities and we will keep on adding the marketing strength as well. Ultimately, our target would be to add more capacities in 3 to 4 years and then ultimate number, whatever we have, we will try to achieve that about 75%-80% utilization of that number in about 3 to 4 years of time. So we are working on both parallelly.

Shashank Palan: And we had completed a CAPEX of Thionyl Chloride of 36 TPA. So that we are going to start, what is the update on that?

Ankit Patel: The update is that that has already been started. And in the last concall, I had mentioned that we were only running at a lower level of around 30%, 40%, which was required for our captive usage. But now what we are doing is we have already backed up the capacity a little bit, and we have started selling in the market also from this month.

Shashank Palan: Okay. So this is an intermediate to Vinyl Sulphone. So the margins of Dye Intermediates should increase based on this fact?

Ankit Patel: Yes, it should definitely help.

Shashank Palan: And an update on Trion, our subsidiary, that is still loss-making. So until Caustic Soda comes in, it would possibly be still loss-making?

Ankit Patel: No, I don't think that it requires its own Caustic Soda and chlorine. If we have that in-house available, then it can definitely help so we can avoid the volatility. That was the issue. Now I think that the Caustic and chlorine prices will be normalized for some time because there are no global issues around the chloride industry. Well, I don't think any extraordinary price increase will happen for at least the next 2 to 3 years. So now I think it's not a bad time to have the production of the PCC, which is a product in crown chemicals. But because of this improvement that we want to do, I think we will have to first attempt that. And then once we are ready with the plant again, we want to start and then go with the smooth operations and smooth tiers as well. And I think then once we do that and raise up the capacity, ramp up the production, then we'll be able to I think meet the breakeven levels and some good margins also easily.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC. Please go ahead.

Ashok Shah: Sir, my question is regarding we are going for a CAPEX in the Caustic Soda and chlorine as a raw material stabilizer for us. Sir, there are news or some rumors that antidumping duties are expected to take place or the manufacturer are demanding. So in that case, when the import from the China is more or the price is lower than our production costs, then does it going to affect us in future as a raw material we are making as a solution for those in future?

Ankit Patel: As far as my information is there, I don't think there's any antidumping development that is doing around there. I mean antidumping requirement is there only if the local manufacturers are making a loss or they are facing any pressure from the material coming from outside. Now if you look at chlor-alkali industry in the last 2 years, they have been making bumped-up margins, and also currently, they are making decent margins. So I think nobody, none of the manufacturers would actually refer any antidumping duty. And even if they try, I think the government will never give it to them because I think from the kind of margins what the companies have been earning, not only last year, but more than 5, 6 years now, I think the antidumping is out of the question.

Ashok Shah: So currently, what is the Caustic rate and chlorine rate because you told earlier that it was a minus Rs. 2, Rs. 5 a kg. So it's a very wide fluctuation which is taking place in chlorine and simultaneously, maybe in Caustic rate also.

Ankit Patel: So Caustic, current Caustic price is around Rs. 28. And chlorine fluctuates, yes, it definitely fluctuates between minus Rs. 2- Rs. 3 to plus Rs. 2 – Rs. 3. So what we usually do is we just take zero or plus Rs. 1 as an average. And it is actually less fluctuations when if you're a large consumer, then there is definitely very less fluctuation.

Ashok Shah: So Caustic has come up, down from Rs. 45, more than a 1 year back?

Ankit Patel: I think just 2 months back, it was around Rs. 45.

Ashok Shah: So there is a wide fluctuation. So how will we be able to adjust chlorine...

Ankit Patel: Rs. 45 was not a realistic price. What you need to understand is that the costing of the entire Caustic-chlorine production is not more than Rs. 18 – Rs. 19. So even at Rs. 28, it's a very good margin. At Rs. 45, it was just a magical period where there was a specific shutdown that happened in Europe, which is the second biggest market. Because of the technology upgradation from the UN, they had to upgrade immediately. So many plants went for a shutdown. And also, the U.S.' biggest market is in Houston. 2 years ago, there was a big flood there. So for 6 to 8 months, those industries also were topped. Putting this now together, there was a big supply cut for more than 8 to 10 months. So because of that, this entire 1.5-2-year period, earlier, the level of these prices used to be between 25 to 30 levels only which are normal levels and decent margin levels. But then in the last 1.5 to 2 years, the prices have been more than, I would say, average is around Rs. 38 –Rs. 40 because all these plants are being shut down in U.S. and Europe.

Ashok Shah: So there was a need to change this catalyst or the..

Ankit Patel: Actually, it's the technology. Earlier, it used to be mercury-based technology, which was not environment-friendly. And then they were compulsory forced to change it to a membrane-based technology, which is more environment-friendly.

Ashok Shah: So we are setting up a De Nora technology, De Nora?

Ankit Patel: Yes. We are not sure because there is also an option of Japanese technology and a British technology. So there are 3 options in the world right now. One is De Nora, which is De Nora in

ThyssenKrupp which is German, combined have a company which is ThyssenKrupp De Nora company. So that is one option. Second option is there is a company called Asahi Kasei in Japan. They also have a good number of installations in India. And the third option is is the biggest company in Europe. So we are still exploring. We will be taking that call at the last moment only because they are all very competitive and very much approved and very good technologies.

Moderator: Thank you. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: Sir, so 700 crores of debt we might take. So what would be the peak debt? I mean currently, it's at roughly 100 crores, if I'm not wrong. What will be our peak debt? And what is the cost of debt currently?

Mayur Padhya: I think currently 100 crore debt is mainly from foreign currency debt. That's the PCFC, packing credit in foreign currency. And whatever rupee loan we need to take, that cost us about 9% and PCFC cost was about 3% at present. So blended, not more than 6% also. And the peak debt, what you are saying, so presently 100 crores of working capital, we may need to add another 100 crores, so 200 crores working capital and another 700 crores term debt. So at one point of time, it may reach to say 850 or 900 crores.

Kishan Shah: And Thionyl Chloride, currently, what is our utilization? And could you just give us a price trend, like quarter 1 this year versus last year and the current price?

Ankit Patel: So Thionyl Chloride also had a very much volatile cycle in the last 1, 1.5 years with the prices of Thionyl Chloride that had gone up to around Rs. 40 level. Last quarter, the price was around Rs. 20. And this ongoing quarter, the current price is around Rs. 16. So traditionally also, if you remove the extraordinary phase of plus 1 year, then the prices used to be in the range of around Rs. 13 to Rs. 16 only. So that is a normal price. You know the companies were earning normal margins. And we always consider those normalized prices only. But again, the chemical industry has been going through so much of volatility, so we keep hearing about prices doubling up and all that. But this has come back to around 16 level, which is still a good, decent margin level. So we are currently operating at around 50% to 60%. The only reason why we assume we could have easily operated more, there's no issue in the plant or the quality of product. The only reason was the prices in the last few months were coming down. And we did not want to be the aggressive entrant in the marketing. That would have affected the price to crash. So we wanted to control the prices. At the time, it was already in the market as well because it is one of the main raw material for Vinyl Sulphone. It is the biggest product for us. Now any raw material going down for us can bring down the Vinyl Sulphone price also, so we are always in the interest of all the raw material prices being a bit strong. So Thionyl Chloride was in our control. So we are strategically moving into the marketing of that. So we have now started selling Thionyl Chloride since last about 30 to 45 days. And we are now increasing the volumes also. So setting is not a problem there. We just want to make sure that it doesn't affect the price too much.

Kishan Shah: And how much of this is actively used, of the total production?

Ankit Patel: So the plant capacity is around 3,000 tonnes per month. Our captive consumption is around 30%. That is going to grow a little bit more because once we start the SPS Vinyl Sulphone plant, it is going to increase.

Kishan Shah: And sir, on the chlor-alkali expansion, could you quantify the cost savings that we expect, like a ballpark figure? Or maybe margin expansion, what could it be?

Ankit Patel: So again, it is the problem of a fluctuated price. It depends on which price you take. So for example, FY '18, we had Rs. 18 crores more only in the purchase of Caustic Soda. So if that price is there, now the volumes that we use have also gone up. So maybe 25 crores we can save in a year. But it all depends on the price. We also use a lot of chlorine. We also plan to do the HCl. We also are going to have a common utility, mainly the power plant. So it will bring in not just the savings from captive using of the Caustic Soda, also I think what I feel is the market is going to remain good. It may go through a lower cycle, some pressurized cycle in maybe 1 or 2 years. But I think that nobody can actually figure that out. So I cannot decide that. But what I feel is because we went through a great phase, new capacities will come up. So there maybe some pressures. But I think the best part and the most important part for chlor-alkali is it is not just a domestic product, it has a lot of connection in the international market also because what we witnessed in the last 2 years is that because of the U.S. and Europe shutdowns, the entire global companies, other industries had a bumper time. What happened is between 2014 to 2018, China received around 50% of the installed capacities of Caustic and chlorine that has only grown 4%. So what happened was 20 years back, Caustic and chlorine in China's presence was only around 10% in the world. And last 4 years', 5 years' time, they have only grown at 4%. So the biggest player in the world, the largest capacity holder is not growing because the reason is that now these kind of industries are not very favorable there. It actually requires a power plant based on coal, which is the cheapest form of energy for power plants. Now there are a lot of limitations to use coal. They are actually not giving clearances to coal-based power plants. So even if China wants to have any aggressive growth in the future, that is not going to be a very competitive growth. So what we understand is that the biggest player in the chlor-alkali industry on the global map has not grown in the last 4 to 5 years. And that is not going to grow. So the opportunity definitely is good. And also, India, definitely, has a good opportunity, not only to grow in the chemicals sector, but also in the pesticides sector, where the Caustic is sold in large volumes. And also pharma is also doing well, where Caustic supply is possible there. Also, textile is one of the largest consumers, which is going through a slow cycle right now, but it is not going through permanent. So India definitely has a good advantage for at least next 10, 15 years. So we want to have those in our portfolio and take advantage of those next 10-15 years of the golden period that we see coming for the Indian chemical industry.

Kishan Shah: So sir, if you could just summarize your outlook for FY '20, like how would it pan out, how do we expect it to pan out? Like the finished goods prices might contract and raw material prices contract so margins could improve, something like that, on that lines?

Ankit Patel: So margins can improve from other areas. Our feeling is good that prices will definitely come down, that's for sure. But the good thing is the raw materials are also coming down. What I am hoping for, that some of the positives that is going to happen this year is one is going to be the Vinyl Sulphone plant at SPS. So when that is there, then it will definitely give us some profit and also some revenues. Second will be our Dyestuff utilization should increase. Third is Sener Boya, which we have acquired stake in Turkey, which is already an operational company. It has good revenues already. That should also start contributing to our revenues and our profit margin. Also, Thionyl Chloride, we are already operating at around 50%. We already finally started selling in the market. So we should get the margins there also. And our power plant which also started last year. There also, we were able to identify some of the practices that we were doing, and we are in the process of improving it. So some improvement should come from there also. So overall, through our finished goods prices, they are pressurized right now may go through some lower cycle also for some more months. It can happen. But because of our integration, because of our recent projects that we have done, the recent integration of plants that we've added, that should definitely help us to somehow maintain our decent EBITDA numbers. And if things get back to normal there, we can definitely do our routine 18% to 20% EBITDA.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mayur Padhya for closing comments.

Mayur Padhya: Thank you very much for participating. Thank you.

Moderator: Thank you. On behalf of SBICAP Securities, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.