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# **Bodal Chemicals Limited**

**Q4 and Full Year FY2018 Earnings Conference Call**

**May 29, 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 Bodal Chemicals Q4 FY2018 Earnings Conference Call. Joining us today on the 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. 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.

Before we begin, I would like to mention that some of the statements made in today’s call maybe forward-looking in nature and involve risks and uncertainties that are difficult to predict. For a list of such considerations, please refer to the earnings presentation. I am now glad 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 Q4 & FY2018 Results Conference Call of our company. On today’s call, I have with me our CFO – Mayur Padhya as well.

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 Chemicals broadly falling under Specialty Chemicals. It contributes to about 20% of India capacity and 5% of the world capacity for Dye Intermediates. Bodal Chemicals have capacity of manufacturing over 25 varieties of Dye Intermediates and around 150 varieties of Dyestuff which are principally used as raw materials in textiles, leather, paper and other dye consuming industries. Out of total production, about 30% is exported to over 45 countries across the world. Recently, our company received the prestigious Award of Excellency from CHEMEXCIL for outstanding exports for financial year 2017. The award was received on 4<sup>th</sup> April 2018.

Coming to our financial results, I hope all of you have got an opportunity to see our ‘Financial Results’ and ‘Analyst Presentation’ filed with the stock exchanges and uploaded on our company website. For the full year ended on 31<sup>st</sup> March 2018, Bodal Chemicals has reported consolidated net revenue was lower by 7.5% to Rs. 1,151 crores; EBITDA was lower by 13.8% to Rs.203 crores and PAT was lower by 8.3% to Rs.121 crores. During the year, our EBITDA margin was at 17.7% and our PAT margin was 10.6%. Margins were marginally lower on YoY basis due to higher material cost than what were anticipated at the beginning of FY2018 and relatively strong prices of our one of the main products, Vinyl Sulphone in FY2017. However, as you would notice our EBITDA margin and PAT margin are now consistently around 18% and 10% effectively for all the quarters of FY2017-18. During the year, our tax rate was lower by 1.6% to 33.2%. During the full year, sale of products of our Dyestuff grew by 23.4%, Dye Intermediates were lower by 16.7% and Basic Chemicals were lower by 9.5% respectively. The year witnessed some continued increase in crude prices; major hurricane in US which affected lot of business, change in technology in use of caustic and significant movement in currency which impacted our business.



For the quarter ended 31<sup>st</sup> March 2018, Bodal Chemicals has reported standalone net revenue was lower by 2.1% to Rs.285 crores; EBITDA was lower by 10.9% to Rs.49 crores and PAT increased by 30.8% to Rs.39.7 crores. During the quarter our EBITDA margin was at 74.4% and our PAT margin was at 13.9%. During the quarter our tax rate was lower by 7.5% to 30.1%. Sale of our products of our Dyestuff grew by 46.8%, Dye Intermediates sales were lower by 25.6%, and Basic Chemicals grew by 9.6% respectively during the quarter. During the quarter, the exports grew by 48%.

Coming to our Subsidiaries: Associates and new projects stabilization work of SPS and Trion Chemicals are at an advanced stage. We believe these businesses will start adding to the bottom line from second half of FY2019. We will discuss this in detail during the call.

Talking about the global scenario, the H-Acid, Vinyl Sulphone business has largely been affected in China over the last 15-20-days and due to further strong environmental remediation measures being enforced and closure of the biggest player in China. This has presently led to H-Acid prices firming up to Rs.750/Kg and Vinyl Sulphone prices is about Rs.325/Kg. We continue to be excited about our strong foundations, new projects and our growth in the coming years.

As a part of future expansion and new projects, the company has recently acquired land at PCPIR, Dahej aggregating about 4.82 lakh square meters from GIDC. At the beginning of the year, we had mentioned that we view this year as a consolidation year for our future growth. We had also mentioned that we anticipate this year to be flattish over FY2017. We look forward to discussing this in more detail over the conference call today.

I now request Mayur to walk you through the financial performance in detail.

**Mayur Padhya:**

Thank you, Ankit bhai. Good afternoon, everybody. Thank you for joining our Q4 FY2018 Results Call. Figures mentioned on the call for Q4 FY18 are on standalone basis and FY2018 are on consolidated basis. Let me take you through our results highlights using our 'Analyst Presentation.' Slide #4 provides detail of the quarter's financial performance compared to corresponding Q4 of last year. Slide #5 provides sale of products mix for the quarter. Please note that this is based on net revenue and it does not include operating other income. In addition to the product wise revenue figure, let me provide you with the product wise production data in metric ton. For Q4 FY2018, Dye Intermediates was 5,894 MT which is 3% higher compared to corresponding Q4 of FY2017. Dyestuff is 4,116 MT which is 25% higher compared to corresponding Q4 of FY2017. Basic Chemicals is 50,081 which is almost similar with the corresponding last year's fourth quarter. At the same time, yearly data are there in Slide #29 & 30 in the presentation. Slide #6 in the presentation provide a graphical comparison of quarter's financial performance. Full year's performance that is FY2018 result, Slide #8 to Slide #10 provides our FY2018 financial results. Slide #11 in the presentation provides capacity utilization for the company, that is in division wise. Slide #12 in the presentation provides financial of our subsidiaries and associates, that is SPS and Trion. Our leverage and rating slide #15 in the presentation provide that. As on 31<sup>st</sup> March 2018 our net debt to equity

was 0.2x and net debt-to-EBITDA was 0.6x. Our rating by CARE is stable but we are happy to share with you that we have done rating exercise through India Ratings and they have given us long-term rating of A+ and Short-term Rating of A1+. Slide #17 provides our shareholding and listing data. Slide #19 to 23 provides the management comments and outlook for FY2019-20.

We now welcome all your queries on the conference call.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Giriraj Daga from KM Visaria. Please go ahead.

**Giriraj Daga:** A couple of questions from my side; if you can just give some kind of guidance in terms of production, what kind of numbers we are looking at in terms of Dyestuff and Dye Intermediates and if you can also club it with the subsidiaries performance like we are saying we expect better performance but what can be the change in delta?

**Mayur Padhya:** As far as Dye Intermediates is concerned standalone, that will remain more or less stable, there is a slight improvement possibility in the number, but as far as Dyestuff is concerned, new facility has started performing, 12,000 MT new capacity we are anticipating on an average 50% utilization for the current year and next year it will reach to about optimum level, that is about 80%. In terms of subsidiaries, in SPS Processors H-acid, facility is now fully performing and Vinyl Sulphone facility we are anticipating it will start contributing from next quarter.

**Giriraj Daga:** So what kind of revenue we can look in SPS and Trion?

**Mayur Padhya:** SPS last year it has done about Rs.74 crores turnover and another about Rs.90 crores turnover is possible, so a total of about Rs.175 crores turnover is possible in SPS, and Vinyl Sulphone facility is fully functional on annual basis. Trion, we did only Rs.10 crores turnover last year and here we are facing some raw material prices hike issue, it has the three raw materials – caustic, chlorine and cyanuric acid, and prices of all these three raw materials has increased in last about four to six months from 30% to say 100%. Finished goods, that is TCCA that prices have not yet improved to that extent. We are waiting for finished goods prices to improve and stabilize. We are hopeful that also will start performing from next quarter.

**Giriraj Daga:** My next question is on the price as you mentioned about H Acid Rs. 750/kg and Vinyl Sulphone Rs. 325/kg. What was the fourth quarter average if you can also give us?

**Mayur Padhya:** This quarter Vinyl Sulphone's average was Rs. 239/kg and H Acid was Rs. 360/kg.

**Giriraj Daga:** My last question is on the working capital and CAPEX. So we see nearly Rs.110 crores increase in the receivables despite our revenue was actually lower in the last quarter. So what explain this? Second, what was the CAPEX we have done in FY2018 and FY2019 guidance?

**Mayur Padhya:** Receivables last year was a bit lean year, so at that time pressure was on to sell product, so our customer was enjoying better credit facility compared to other times. At the same time, last



month itself we had about Rs.115 crores turnover that is in net terms and in last four months gross sales was about Rs.487 crores, it was a bit higher compared to the normal time. Another reason was in last quarter if you have seen the presentation, our export has increased, our Dyestuff has increased. So normally Dyestuff and export credit expectancy by a customer is bit higher compared to the local. Last two months export was almost 43% of our total revenue and for last quarter it was 39%. So that has also led to bigger sales number. These are some reasons and we anticipate it will once again smoothen within two, three months. Regarding CAPEX, we have completed Dyestuff expansion and Cogeneration Power plant. We spent about Rs.56 crores in Dyestuff expansion, Rs.57 crores in cogeneration power plant, our Thionyl Chloride plant is under process and we have spent almost Rs.15 crores in that. Maintenance CAPEX was about Rs.20 crores and we have acquired that GIDC land at SICA, that was about Rs.85 crores, and for FY2019, whatever CAPEX is pending that is Thionyl Chloride (TC), that we will complete, so balance about Rs.30 crores of TC, about Rs.5 crores of Vinyl Sulphone at SPS, about Rs.20-30 crores of maintenance CAPEX.

- Giriraj Daga:** So roughly between Rs. 55-60 crores?
- Mayur Padhya:** Yes, this is something which we have already planned.
- Moderator:** Thank you. We will take the next question from the line of Saravanan Viswanathan from Unify Capital. Please go ahead.
- S Viswanathan:** If I heard you right, you mentioned that H-Acid prices have increased to Rs. 750/kg and Vinyl Sulphone to Rs.325/kg as of now?
- S Viswanathan:** So given the scenario, would you focus more on selling the Dye Intermediates or Dyestuff expanded capacities also will be utilized?
- Mayur Padhya:** That depends upon the timing. Dye Intermediates prices have improved, so correspondingly Dyestuff prices also improve. But if we find it is better to sell Dye Intermediates then we can do to some extent. But there is no clear straight policy.
- S Viswanathan:** But do you have any long-term contract for supply of Dyestuff which you have to honor anyway, those requirements of Dye Intermediates for those Dyestuff business cannot be channelized, right?
- Mayur Padhya:** Yes, definitely we have around 1-2 months Dyestuff contract on hand, not more than that. So we cannot transfer total production for sale.
- S Viswanathan:** Let us say now 29,000 MT Dyestuff capacity, how much is channelized to long-term contracts which you have to service anyway and you cannot route that those Dye Intermediates to the trade?
- Ankit Patel:** We do not have any long-term contracts first of all in our Dyestuff or Intermediates. Since we have large capacities and large production numbers, our orders can go around one month, even



25-days sometime, but that has been the practice for the industry. So other than that, we do not have any long-term contract. So let us say, if Vinyl Sulphone and H Acid prices have gone up from this week, then all our Dyestuff orders from this week will be from the new rates only. So we have nothing to lose and none of our capacities are blocked by our Dyestuff orders or anything.

**S Viswanathan:** So let us say if we move to Dye Intermediates because prices realizations are better there and then once the prices stabilize, would we get customers for our expanded Dyestuff capacity?

**Ankit Patel:** If you look at it from a different angle, it is not going to stop our Dyestuff business at all. If I can get Rs.750/Kg by selling H Acid directly to the customer, I can take that Rs.750/kg into the costing of Dyestuff and I can still sell the Dyestuff because there are a very few players in the industry which are integrated into Dyestuff and Intermediates. So whenever the Dye Intermediates like H-Acid and Vinyl Sulphone prices go up in a very short time, the price increase passes on to the Dyestuff immediately. I would say from the same day only because there are more than 300 dyestuff players, in H Acid there are hardly about 20 players, both products combined. What is happening in last couple of years is that dyestuff is also now being exported to China because these H-Acid and Vinyl Sulphone and other intermediate prices are fluctuating all the time, textile companies have started buying dyestuff from India as well. It is integrated to Bodal and others, they can offer consistently good prices.

**S Viswanathan:** Second question on the GIDC land purchase of Rs.85 crores, what is the project about... could you give us some color on that?

**Ankit Patel:** We have not finalized any particular project that we are planning to do there. We are still in the process of finalizing what combination we want to start and are still strategizing that. It is not possible for me to disclose any project right now.

**S Viswanathan:** In FY2019 there would not be any CAPEX relating to that land purchase?

**Ankit Patel:** No, FY2019 there will not be anything at all, because we have to get the environmental clearance as well for any project that we wish to do and that is around 10-months process, so which we will do in coming a couple of months and after that it will take another 10-months just to start any project. There may be small CAPEX related to some water connection, electricity connection from the GIDC, but that will not be a very large number or towards the CAPEX to the land development part.

**S Viswanathan:** Could you confirm whether this project is also into the existing segments like Dyestuff or Dye Intermediates or it could be altogether new segment as well or you are still deliberating on that?

**Ankit Patel:** What we are trying to do is we are trying to find a good product line where we can create another integrated business model just like what we have created in our Dyestuff segment. There are other projects we still integrate to some extent into our existing business and it also



open the new area for us. So we have identified a few areas like that, that will integrate to some extent in our existing Bodal business, and as well as it will start a new category of chemicals.

**S Viswanathan:**

Because why this specific question is Thionyl chloride beautifully sits into our scheme of things but whenever we try to do some new project like say LABSA or even water chemicals, in terms of at least timelines has not been as per our initial expectation. So given that dynamics, we just wanted to know whether the Dye and Dye Intermediates where you have strong capabilities or the new projects wherein there is a time risk?

**Ankit Patel:**

It is not that we have only done Dyestuff and Dye Intermediates, we have also done a few other Basic Chemicals projects where we did CAPEX of more than Rs.150 crores combined and that has all been active since 2007, 2009, as it also contributes very well to our top line and bottom line. So, I would not say that we have only executed successfully Dyestuff and Dye Intermediates business, we have also done some Liquid Dye that is also very different technology completely. Sulphuric Acid which is entirely a different technology, only couple of other players in the entire industry integrated up to that extent. LABSA is more like affluent treatment plant for us. Now when we decided to put LABSA business, that was actually for sulphuric acid before not realizing even up to the cost amount from the market at that point. So we just tried to add some value addition into that and convert into different products and sell it in the market. So we tried to do that but meanwhile while we are exiting the LABSA business, the sulphuric industry has been transformed and changed completely. Now sulphuric acid is sold in the market at a very good premium. So now we do not need to convert much into the LABSA, anyhow try to sell as LABSA. So that is one of the reasons why we are not very keen on LABSA business or do not produce too much of LABSA. Trion, like you said is a water treatment chemical that we are facing some difficulties, but it is not because of any technical problems, the plant already running very well, we are able to get good production as well, but the problem was something which was out of our control; caustic prices and chlorine prices went life time high. So that is one problem and other chemicals where we are dependent on Chinese supply. So again, there are some plants shut down and all. So it was an extraordinary period which was out of our control. Last couple of quarters we just could not do anything about it. In a long run, we are confident that we will get it on track and it will be a good value addition to our bottom line.

**Moderator:**

Thank you. We will take the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

**Manish Ostwal:**

I joined the call little late, so maybe I repeat the few questions; first, on the subsidiary side, both the Trion and SPS, the performance in FY2018 both are making losses. In your outlook you said that we expect improvement in the profitability of performance of these subsidiaries. So can we expect they are turning into black or what kind of magnitude of improvement we can see?

- Mayur Padhya:** SPS will definitely generate profit very soon because H-Acid and Vinyl Sulphone price as such has improved very much and these are the two products the company is going to produce. In Trion, it may take some more time and there is a new industry call outs but market is very big, so we are waiting. But definitely we are cutting off edge very soon and maybe by the year end or next half year it will start generating some profit.
- Manish Ostwal:** Secondly, sir in our export business, what average currency we have taken for the quarterly numbers and at the current level in terms of 5% depreciation of INR, what kind of positive impact we can have on our numbers, profitability basically?
- Mayur Padhya:** In our presentation, we have mentioned for last year our average realization was about Rs. 63 and which has now improved to Rs. 67-68 level, last year itself was export in million tons was 52, so corresponding effect is there but we cannot consider direct benefit for the company because our customers are also monitoring this currency fluctuation. So some part we have to pass on to them also.
- Manish Ostwal:** You have written outlook only; the dollar is becoming stronger again which may add to better profitability?
- Mayur Padhya:** Yes, that definitely add to better profitability but not 100%.
- Moderator:** Thank you. We will take the next question from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Just wanted to get the few numbers in the Dyestuff. As you stated that your new CAPEX Phase-1 has started in the month of March. So can you help us in knowing the utilization for the month of April and May?
- Mayur Padhya:** It is a starting point, so in these two months there is hardly 10% utilization, then it is showing increase and by the year end we are hoping that overall year's average should be about 50%.
- Jatin Damania:** So what is the revenue that you are going to expect from this new facility and what will be the Dye Intermediates sale once the phase-1 offers 50% utilization?
- Mayur Padhya:** With the improved pricing, we are hoping at least Rs.150 crores revenue get added in current year from Dyestuff, but at the same time Dye Intermediates revenue will fall, say by Rs.70-75 crores, so that Rs.70-75 crores addition will be there in the top line from the Dyestuff project for the current year.
- Jatin Damania:** So that means you operate this facility at 50% in this financial year and probably if we take it to optimum utilization of 80-85% for the next financial year, do we assume that the Phase-2 which is of another 12,000 tons will come in FY2021-22 or is there anything beyond that as well?
- Mayur Padhya:** Around that.



- Jatin Damania:** On this Trion and SPS number, can you help us with the EBITDA and the profit performance also?
- Mayur Padhya:** Yes, that we have mentioned in our presentation.
- Jatin Damania:** Earlier when we initially started the business, the margin was as high as 20% in the Dye business. So what are the margin trends currently?
- Mayur Padhya:** Currently it is difficult to say because the raw material prices are at higher side, at the same time it is fluctuating. You might be aware that chlorine which was say six, seven months before (-5), that has reached to Rs.(+7), at the same time caustic that has reached to 45-50 level, now once again it has come to 40 level also. Definitely very much lower compared to what we have estimated when the project was started.
- Jatin Damania:** Do we expect this trend to continue at least for full year of FY2019 or in FY2020 also we will see the pain?
- Mayur Padhya:** This year itself we expect that losses will be reduced and some profit this unit will start generating.
- Jatin Damania:** What is the revenue that you are expecting from Trion in this financial year?
- Mayur Padhya:** Difficult to say because we are still waiting, plant is not operating at present.
- Jatin Damania:** Coming to your SPS facility, since you have done FY2018 revenue of Rs.70 crores and another we have assumed Rs.90 crores is possible, now this Rs.90 crores we are assuming that the current price of Rs.725 and Rs.325 sustains right?
- Mayur Padhya:** No, last year's average is there when we can generate about Rs.170 crores turnover at the full year basis in that company.
- Jatin Damania:** The last year average also we can generate the revenue?
- Mayur Padhya:** Yes.
- Jatin Damania:** My last question is on the fund raise. The QIP that we did of Rs.225 crores, of which how much did we already spent and how much is there on our books?
- Mayur Padhya:** QIP fund once we raise that merge with the system, so there is no separate specification that this fund is of QIP and this is internal accrual. But as we mentioned earlier, we have done about Rs.230 crores of CAPEX for this year and there is about Rs.20 crores of liquid fund at the yearend which is even better at present.
- Moderator:** Thank you. We will take the next question from the line of Varun Ghia from Equitree Capital Advisors. Please go ahead.

- Varun Ghia:** Sir, I have a few questions; first of all, what are the utilization levels for LABSA and Liquid Dyestuff?
- Mayur Padhya:** Liquid Dyestuff and LABSA has a very low utilization level. Last year we did about Rs.12 crores of turnover in Liquid Dyestuff that shows about 12-13% utilization and LABSA, Rs.18 crores of turnover and that suggests hardly 20% of utilization.
- Varun Ghia:** So the capacity stands at 18,000 for LABSA and 3,600 for Liquid Dyestuff that you are going to expand both of the capacities?
- Mayur Padhya:** No, LABSA is 18,000 p.a. and Liquid Dyestuff is 10,000 p.a., and we are not expanding in any of this capacity. Earlier, we were considering to expand for LABSA but that we have put on hold.
- Varun Ghia:** This utilization level will remain here only or do you see them increasing this year?
- Mayur Padhya:** As Ankit bhai mentioned, LABSA is kind of affluent treatment plant for us, so over there we are not much focusing, whenever sulphuric acid price is lower, then we operate that plant, but Liquid Dyestuff we are doing hard effort to improve that but it may take some more time.
- Varun Ghia:** What is the captive consumption of Dye Intermediates in percentage terms?
- Mayur Padhya:** Dye Intermediates captive consumption is almost 40%.
- Varun Ghia:** So that will increase next year, right?
- Mayur Padhya:** Yes, that will definitely increase.
- Varun Ghia:** How much revenue do you expect from this Thionyl Chloride this year?
- Mayur Padhya:** Thionyl Chloride is a low value item and annual run basis it will not add more than say Rs.25 crores of revenue but about 30% of this production will get captively consumed, so it will add more on a bottom line than on a top line.
- Varun Ghia:** This increment in H-Acid and Vinyl Sulphone prices will be reflected in this quarter or is there a lag effect?
- Mayur Padhya:** No, it should get reflected from next quarter because hardly one month is left and we already sold about one month's product for both of this product.
- Moderator:** Thank you. We will take the next question from the line of Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** Can I have the sales volume in Trion?

- Mayur Padhya:** That is about 1,000 MT.
- Srinath Sridhar:** Sir, you say that almost 40% you use Dye Intermediates captively last year. 60% will be outside sales which is 13,400 MT, given your production is 22,300 tons, so your outside sales would be about 13,400 and Rs.589 crores of top line which gives me a realization of Rs. 4,40,000. Is that accurate?
- Mayur Padhya:** No, in that case we need to work out in detail because there are various products having various prices, some products like Vinyl Sulphone that was running between Rs. 200-300/kg, for some products that is Gamma Acid, F C Acid, DASA, they are even more than Rs.500/Kg. It depends upon what mix we have sold in that period.
- Srinath Sridhar:** Apart from that in FY2018, your raw material cost as a percentage of sales is actually better than FY2017, your margins have actually gone down because of other expenses and employee expense. You have all managed raw material prices well; it improved by almost 270 basis points on YoY basis. So given that this year you had a lot of new CAPEX that you had to put up, going forward, what margin trajectory can we see next two years?
- Mayur Padhya:** If you can recollect since last four years we have been guiding market that though we are generating 17-19% EBITDA recently but bare minimum EBITDA for our business is something 15% or so. At the same time the initiatives which we took that is cogeneration power plant, EC, Dyestuff expansion, once all this will be fully functional, our bare minimum EBITDA will increase to about 18%.
- Srinath Sridhar:** Cogeneration plant is already, up right?
- Mayur Padhya:** Yes, that has already started but initially that is not fully functioning because some starting up issue is there because it is a kind of customized plant but it will be fully operational or in a way contributing from next half year.
- Srinath Sridhar:** So this year from 17% EBITDA can we at least see 17.5%?
- Mayur Padhya:** Yes, that should be there and with the improved pricing even better than that.
- Srinath Sridhar:** After Thionyl Chloride you are saying?
- Mayur Padhya:** Yes, at the same time, Vinyl Sulphone and H-Acid improved prices can make EBITDA to some extent even better.
- Srinath Sridhar:** Apart from that, your others that you mentioned in your slide, you said that Rs.51 crores of sales is coming from others, but LABSA and Liquid Dyestuff you said only Rs.30 crores are there. What are these other Rs.20 crores?
- Mayur Padhya:** There are several other products which we do not classify it into even Basic Chemicals, like HCL, affluent, etc.,

- Srinath Sridhar:** So that will be a combination of various products?
- Mayur Padhya:** Various small-small products. Even we sometimes sell salt, etc.,
- Srinath Sridhar:** This sales volume in SPS, you are saying that now you are going to put up 6,000 MT Vinyl Sulphone from, earlier you said 4,200 MT right?
- Mayur Padhya:** Yes, originally it was 4,200 MT but later on we have increased that capacity.
- Srinath Sridhar:** But what about the gas availability, you said Reliance, there were some issues, so when will this be up and running full?
- Mayur Padhya:** It is still there. We are hoping it should start functioning from next quarter.
- Srinath Sridhar:** It would not get delayed further than this, right?
- Mayur Padhya:** It should not.
- Srinath Sridhar:** What will be the CAPEX for this?
- Mayur Padhya:** Total we are spending about Rs.20 crores for this.
- Srinath Sridhar:** You said Rs.5 crores this Vinyl Sulphone?
- Mayur Padhya:** Rs.5 crores is something pending which we will spend during current year, almost Rs.15 crores we have already spent last year.
- Moderator:** Thank you. We will take the next question from the line of Siddharth Purohit from SMC Global. Please go ahead.
- Siddharth Purohit:** The price rise both for H-Acid and Vinyl Sulphone seems very high currently. So any sort of information, what is the supply/demand gap overseas particularly in Chinese markets in terms of tonnage or how many tonnage of plants has gone out of production in the recent months?
- Ankit Patel:** Very difficult to comment on the supply/demand gap but was a largest dyestuff player which is Hubei Chuyuan two years ago for more than a year and their plant is actually shut down. Because of that and another large player in a different area their plant is also shut down. So because of these shutdowns, the prices are increasing almost every day.
- Siddharth Purohit:** Just one more thing, listening from some even media resources and all that, maybe these sorts of plants which has gone out of production might also kind of relocate to new geographies within China and they might get into production mode in FY2020 onwards. So is it happening or it is a complete kind of permanent shut down of those sorts of plants and kind of a very long-term sustainable pricing environment, how do you look into ...?

**Ankit Patel:** As per my knowledge, I have not heard any confirmed news about any of these companies relocating to elsewhere in China, I think that is not that easy, reason being the raw material availability is again a much larger country than India, so if you are away from the ports, in an isolated place, then your viability is not there, because all the raw materials from the industrial area which are all near the coastal areas of China, not too far from coastal areas, and then again all the consumption also takes place in Eastern China area. So if you put your place all the way up in North China or Western part of China, then all the consumption and raw material is in the eastern parts and viability issue will be there. So I do not think it is that easy. Most of the chemical industries in Gujarat and Maharashtra in India having H-Acid or Vinyl Sulphone plant in Assam will be very unviable. So similarly, I think India to compete with other countries for dyes also. So it is probably not very practical move and again it is one country, so I do not think China will really allow the companies to pollute like they used to do.

**Moderator:** Thank you. We will take the next question from the line of Bharadwaj from Anand Rathi. Please go ahead.

**Bharadwaj:** Most of the questions have been answered, so a follow up question to the previous one that you are saying, in 2014, 2013 we had jack up in prices and do you think the similar levels, how long can they sustain the price rise that we are at right now?

**Ankit Patel:** 2013 was H-Acid crisis and that time also nobody was sure, getting the correct information from China is always difficult. Again, in 2014-15, Vinyl Sulphone stuff was happening and which one is the largest company in the world that was shut down and earlier there were news that it was shut for three months, then for six months and then ultimately they were closed for about a year. So it is very difficult to tell there is a whole new development which is around Yangtze river which is the largest river in China and the third largest river of the world. Recently with President Xi Jinping hosted Mr. Narendra Modi there in a city called Wuhan, that was also on the banks of Yangtze river. While Mr. Jinping was there, he visited chemical factory and hydro power banks and the localities and all. What we hear and what we read from the news is that they have started a new policy to not pollute a younger river further, even just like what happened around Ganga river while Mr. Modi became the prime minister and they started all their campaigns, so similar thing is happening there. What we hear and what we read is that there would not be any chemical plant allowed within one Km distance from the river. But naturally lot of the plants are actually situated on the river bank, so you can discharge the effluents. So this is a very big development. If you look at the map of Yangtze river, it was right in the main economical head of China. So it is a very big movement. How seriously they take it, how far and how they implement it, it all depends on that.

**Bharadwaj:** A very qualitative statement, rather speculative, have you ever been approached by any of these companies having shut down for long-term contracts to supply into China?

**Ankit Patel:** In fact, there are at least about 15-20 Chinese senior officials from some of the bigger companies in the world in Ahmedabad right now, so every day a new Chinese team are arriving in Ahmedabad and they all realize that the prices continue to shoot up even more, so



they are trying to buy quantities on a daily use spot pricing basis even for longer time, then obviously nobody want to sell for the large quantities or for longer time right now, so that is happening. Even Chinese companies are visiting people here for joint venture possibilities and all that.

**Moderator:** Thank you. We will take the next question from the line of Manish Jain, individual investor. Please go ahead.

**Manish Jain:** My question is regarding depreciation policy. In 2014 we changed our depreciation policy from straight line method to WDV and in 2018 we are again changing that from WDV to straight line method. What is the reason behind it?

**Mayur Padhya:** In 2014, we were being guided by some other consultants that this is better policy and at that time we changed the policy, but this was the first year for us as the implementation of IND AS, at the same time Deloitte was the auditor for the first year. At the implementation of Indian Accounting Standard, we were asked by our consultants that we should review all the policies which we are adopting or which we are following. So during that process, we come to know that this is the policy which we are following is not parallel with the industry practice or at the same time practice is followed by major listed corporate in India. So we thought that it is better to be parallel with all other players and that is why we change this policy.

**Manish Jain:** So because of this and exceptional item of Rs.5 crores, because of sets of plants, it adds something around Rs.13-15 crores to our bottom line this year?

**Mayur Padhya:** We add about Rs.9 crores in the bottom line.

**Manish Jain:** Rs.5 crores because of the exceptional item?

**Mayur Padhya:** Rs.5 crores exceptional item in the last year, not in current year.

**Moderator:** Thank you. We will take the next question from the line of Payal Malvania from WovV Investments. Please go ahead.

**Payal Malvania:** I wanted to ask, how much per cent of VS and H-Acid contribute towards total turnover of the company?

**Mayur Padhya:** Each range between 20-25%.

**Payal Malvania:** So joining same together it would be around 40-45% of the total revenues of the company?

**Mayur Padhya:** That depends upon the prices.

**Payal Malvania:** What do you further anticipate the pricing to be of VS and H-Acid as they are rising out of now, right, due to the China impact?

- Mayur Padhya:** Yes, that was being fully explained by Ankit bhai that we cannot say how long it will sustain, but at the same time in our previous experience we mentioned that Hubei Chuyuan was closed earlier, they could restart after about one year.
- Moderator:** Thank you. We will take the next question from the line of Parag Tare from TCS. Please go ahead.
- Parag Tare:** What kind of EBITDA growth we are forecasting for FY2019?
- Mayur Padhya:** Earlier also I have answered this question that last four, five years we have been generating 17-19% EBITDA, but there has been some extraordinary effect because of the China and what bare minimum EBITDA we are guiding to market is about 15% but because of the improvement what we did in our plant, that is cogeneration power plant, Thionyl Chloride plant, at the same time capacity expansion in dyestuff plant, once all these plants are operating, our minimum EBITDA should increase up to 18%. Effect from China can lead to further improvement.
- Parag Tare:** Your forecast for the top line growth considering whatever comes into the production and various measures which you have taken?
- Mayur Padhya:** Dyestuff expansion we can add about Rs.70 crores turnover for this year and another about similar figure next year and in SPS Processors plant will start functioning and that will give annual turnover of about Rs.90 crores.
- Parag Tare:** Any debt reduction plan in FY2019?
- Mayur Padhya:** No, presently what debt we are using is packing credit in foreign currency and that cost us hardly 3-4%, so we do not have any plan to reduce it further. Whatever extra generation is there, that is we are deploying into liquid fund, etc.,
- Moderator:** I now hand the conference over to the management for their closing comments.
- Mayur Padhya:** It was a good experience. Thank you very much. If anybody's question remains unanswered, then they can contact us directly.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Bodal Chemicals Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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*Note: This transcript has been edited to improve readability*

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