Bodal Chemicals Limited

Q2 FY2018 Earnings Conference Call

December 13, 2017

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

Moderator: Ladies and gentlemen, good day, and welcome to the Bodal Chemicals Q2 FY2018 Earnings Conference Call. Joining with us on this call today 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 may be forward-looking in nature and may involve risks and uncertainties. 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 quarter two FY18 results conference call of our company. On today's call, I have with me our CFO – Mr. Mayur Padhya as well. I hope all of you have got an opportunity to see our financial results and analyst presentation filed with the stock exchanges and are uploaded on our Company's website.

Bodal Chemicals has reported total revenues of 264 crores for the September quarter, where the EBITDA was 48 crores and PAT was 26 crores for September 2018. Our total revenue degrowth of 23.5% for the quarter is very disappointing. We are, however, encouraged by the higher profitability that we have been able to maintain throughout the quarter. Our Q2 2018 EBITDA margin is 18.2% and PAT is 9.9%. They are consistent with our stated objective of building higher profitability above historical long-term averages. As in quarter one of 2018, our performance during quarter two 2018 has been on the back of very strong expansion of revenue and profitability in FY16-17, moderation of product prices on year-on-year basis and significant addition of upfront fixed cost from ongoing projects. An additional important factor during the July to September period was the introduction of GST. As you would be aware, the textile sector was affected by this change and this in turn affected our sales, as the sector is a major client for us. Our exports during the quarter were affected too, as every producer tried to sell unsold production in overseas markets.

Bodal continues to make serious investments for its future growth and I'm pleased to report that our teething problems at SPS in UP and Trion Chemicals are near solution. Our three new projects of dyestuff expansion, co-generation power plant, and thionyl chloride are all on course. We will provide you with the details during the call. Overall, we continue to view FY18 as an important build year for us and we remain confident about our medium and long-term growth prospects. I request Mayurbhai to walk you through our financial performance details.

Mayur Padhya: Good afternoon, all. Thank you for joining our Q2 results call. Figures mentioned on the call for Q2 FY2018 and H1 FY2018 are on a standalone basis.

Slide 4 provides details of the quarter's financial performance.

Slide 5 provides sale of products mix for the quarter. Important comments are: Share of Dyestuff increased year-on-year during the quarter to 28.9% from 21.9%. Share of export decreased Y-on-Y during the quarter to 23.8% from 30.6%. This helped us maintain our EBITDA margin above 18% during the quarter.

Financial comparison. Slide 6 in the presentation provides a graphical comparison of quarter's financial on year-on-year basis. As can be seen, although our revenue is lower by 23.5% compared to year-on-year previous quarter, which was a bumper quarter with very high realization, our EBITDA, PBT, and PAT margin are fairly maintained in Q2 FY2018, even when our tax has increased to 36% of PBT in Q2 FY2018 as compared to 32.6% of PBT in Q2 FY2017. We can see that our company's emphasis on quality of revenue is steadfast and is yielding results.

H1 2018 results. Slide 7 through 11 provides our H1 FY2018 financial results. For H1 FY2018, revenue is lower by 13.1% as compared to H1 FY2017. Here too, as you can see, on slide 10, our EBITDA, PBT, and PAT margins are maintained. Tax on H1 FY2018 was 35.4% compared to 33.3% in H1 FY2017.

Our leverage and rating, slide 13 in the presentation provides our leverage and rating details. As on 30 September, 2018, we have fairly maintained our conservative net debt equity and debt EBITDA profile, in spite of significant ongoing projects. Ratings were the same in the earlier sequential quarter.

Slide 15 provides our shareholding and listing data.

As far as outlook for FY2018 is concerned, as Ankit bhai mentioned, we believe that FY2018 is a very important year for us.

Our focus this year continues to be consolidating our revenue and profit position at the higher base that we have built, to get SPS and Trion to their full potential, and to implement the new projects at hand. As you are aware, our company has recently received QIP equity funds, aggregating to 2.25 billion in quarter, in October 2018. This further strengthens our Company's balance sheet and ability to pursue purposeful growth.

We will continually focus on building our sectoral growth at all three growth levels of our business plan beyond FY2018. The first one is Primary, i.e. the base business of the Company. Secondary is the recently started fast-growing business streams. And Tertiary, i.e. business of the future, which need to be sowed today.

We now welcome 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 Pratik Barasia, an Individual Investor. Please go ahead.

Pratik Barasia: I had a question regarding vinyl sulphone. See, there's lot of CAPEX going on by several companies. And I want to understand, going forward how is the demand looking for that, given that there's going to be a significant increase in supply? And my second question is that since textile industry is going through a bad phase because of GST and demonetization, how do you see this going forward in the next short-term to mid-term in the next one to two years at least?

Ankit Patel: I'm going to try to answer that. Vinyl sulphone prices actually have corrected a little bit post Diwali, and textile sector is somewhere also it feels like it is regularizing and the demand has been steadily increasing from the textile sector as well. So I don't think there is a lot concern about that. And as far as the new capacities coming up in vinyl sulphone sector, as per my information, there are not too many capacities that are coming up right now. In fact, last year, there were some expansions that were done by some of the companies, because the time was much better last year and the prices were much higher. But now, the prices have been regularized and we have a new level of around Rs. 240 to Rs. 250 per kg. So I don't think there is any new capacities, which are ongoing.

Pratik Barasia: Okay. And how do we see the effect of China, going forward?

Ankit Patel: China continues to be tight as far as their quantities that they offer to Indian markets and that's why Indian companies are still right now enjoying the good opportunity as far as the exports of vinyl sulphone or any other intermediates is concerned. So there's, in fact, some exports that are being done from India to China as well.

Pratik Barasia: Okay. So is that at anytime soon, do we see, like, China reverses the decision or, let's say, new CAPEX is about to come up in China? So, will that happen in the next 1-2 years? Or does it take time for it to come up and for them to start exporting and again flood the market? Is that going to affect us and are we concerned in the short to mid-term?

Ankit Patel: As per my information, there are no vinyl sulphone plants coming up in China because the new permissions are very difficult in India as well. In Gujarat, few months ago, the government has restricted vinyl sulphone and some of the other intermediates to only Dahej. So in India also, it is becoming very difficult to establish these plants, first of all, getting the permissions and then establishing the plant. And also, they are moving all these new plants to zero discharge. So the zero discharge technology to operate this plant has a much higher costing than the traditional technology, which the current players are enjoying. So in China, as per my information, there are no new plants coming up because they are seeing these particular few products as a red flag and Chinese are not really allowing any new permissions for that. And Indian government departments are also very strict about it.

So the new upcoming growth is, I don't see the market flooding with any new capacities or any new products in the next at least 2-3-5 years, unless any new area develops where you can establish these plant, which is practically not really possible. Because most of the raw materials are very hazardous and not easy to export-import between countries. And production doesn't take place in every continent and every country of the related raw materials, which are required to produce vinyl sulphone and other intermediates. So the new capacities or a transition to another location or a comeback from Chinese companies with new capacities is very unlikely in my view.

Pratik Barasia: Okay. And we are planning a 12,000 metric tonnes of additional capacity in Phase 1. When is that going to be commissioned? And how long do we think that we will be able to reach maximum capacity utilization?

Ankit Patel: So that 12,000 tonnes that we are talking is about dyestuff. It's not about the dye intermediates, the Dyestuff which is our finished goods. And that is where we use our vinyl sulphone and all the other intermediates. So Dyestuff, we have been continuously growing in that sector, because we were one of the late entrants. So we are not one of the top two or three players in Dyestuff in India. We are probably number three or number four. And Dyestuff is much bigger market than the intermediate market. And the environmental challenges are also much less. And we started Dyestuff in about 2005. It's already been more than 10 years. And we have tasted a lot of success internationally and domestically as well. And we have also been able to develop a brand in which lot of the old companies in India and internationally have their own brands, which are like 30-40 years old. So we are also entering in that particular area with our established brand and distribution network throughout India and internationally. So now, we feel it's the time to grow our numbers. And that's why we have planned the three-phase expansions, where we are doing right now about 12,000 tonnes per expansion per annum and that should start in about next 4-5 months. And not only this new expansion, but last few months we are gradually growing our dye sales. So I'm very confident that these 12,000 new capacity will execute that production and sales within about 1 to 2 years. So that's how we have planned the entire dyes expansion in next about 4 to 5 years that we want to do in three phase of 12,000 tonnes each.

Moderator: Thank you. We will take the next question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: My first question is, the impact of textile demand due to GST on our top line. So how much would it be, just ballpark estimate?

Ankit Patel: Can you speak a bit louder, please? I could not hear you there.

Anand Bhavnani: Yes. I wanted to understand the top line loss for us in Q2 due to slowdown in textile.

Ankit Patel: Yes. See, because of the GST, we have been affected maybe 12%-13% at a volume level and at the same time at the value level.

Anand Bhavnani: Okay. And are we expecting this impact to reflect in better numbers in Q3, Q4, as demand again resumes and people in the textile industry start building their regular level of inventories and regular level of consumption?

Mayur Padhya: No, the things are very much less even in current quarter. So the things are on track. And that droppage, which we have suffered last quarter, that is not in this quarter. Demand is recouping.

Anand Bhavnani: Okay. And, sir, why has our export fallen through sharply by 40% in value terms from 103 crores to about 62 crores?

Mayur Padhya: See, basically what has happened, every Indian player whomsoever is producing either intermediate or dyestuff, they are also into export market. So when people feel that India's market is not enough for them to cater, everybody try for export. And export also we faced very huge competitions in last quarter. So if we want to raise our turnover, then we need to compromise at the price level. And that we do not want to do that, because we have maybe the highest volume in intermediate and one of the biggest volume in dyestuff. So at the cost of price-cutting, we do not want to increase our turnover. That's why there was a droppage in the export area.

Anand Bhavnani: Okay. So, would it be safe to assume that competition in exports will again normalize and maybe in the H2 overall top line from export will normalize?

Mayur Padhya: Yes, it looks like that.

Anand Bhavnani: Okay. And, sir, if you can share the production in metric tonnes for various segments like Basic Chemicals, Dyes, Intermediates, and Dyestuff for the quarter?

Mayur Padhya: Yes. See, for this quarter, in Intermediate, our production volume was 5,403 metric tonnes. At Basic Chemicals, it was 44,672 metric tonnes. And Dyestuff, it was 3,420 metric tonnnes. And LABSA, it was low, but it was 1,210 metric tonnes.

Anand Bhavnani: Okay. And, sir, for Q2 FY17 same numbers?

Ankit Patel: Q2 for last year?

Anand Bhavnani: Yes, Q2 FY17 production?

Mayur Padhya: Yes. It was Intermediate, it was 6,684. Basic Chemical, it was 50,761. Dyestuff, it was 3,396. And LABSA, it was 2,204. So there was almost a flat as far as Dyestuff is concerned and balance three area, there was a droppage.

Anand Bhavnani: Okay. And, sir, lastly, if you can comment on SPS Processors. Have we been able to start the production there? And how are things panning out in that part of the business?

Mayur Padhya: Yes. See, SPS Processors H-acid production is going on. There is no issue. As far as the new plant of vinyl sulphone, we were earlier targeting to start production in last quarter. But because of certain issues, see, over there in production of vinyl sulphone, ethylene oxide is required as a raw material and there is no producer of vinyl sulphone in North India. And we are the first to start this production. So to produce vinyl sulphone, we need to take explosive department's consent, which is at Nagpur, and they took good time. At the same time, for Reliance, which is the supplier for ethylene oxide, for them to supply over there, it is almost more than 800 kilometers, which they are not supplying at present. So they also took good amount of time that some route is to be decided, at the same time double layer tank is to be built for this particular purpose. So that took time. But we are confident to start production by next quarter. Now, the things, whatever issues were there, that are on the verge of solving.

Anand Bhavnani: Okay. And sir, H-acid at SPS, what is the capacity that we are using?

Mayur Padhya: See, presently, H-acid capacity over there is 3,000 metric tonnes per annum.

Anand Bhavnani: And usage is?

Mayur Padhya: Usage is almost 75-80%.

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

Jatin Damania: Sir, just wanted to know, what was the contribution from the Textile sector during this quarter vis-à-vis last quarter and last year?

Mayur Padhya: See, I don't have the data with regards to specific sector. But majority of our Dyestuff production goes to Textile. And second number is Leather and third is Paper. But majority, that goes to Textile as they react to Dyestuff.

Jatin Damania: Sir, if you look in last quarter, you have been impacted by the discharge pipeline. This quarter, you have been impacted by the textile demand. And this quarter, if you look on the number per se, sequentially numbers across our product, whether you take the Intermediate, Basic Chemicals, and Dyestuff has declined sequentially also. So just wanted to check how is the traction percent at Textile in the month of October and November? Or do we foresee the similar amount of the volume trend to continue for the next couple of quarter?

Mayur Padhya: No, things are recovering. See, once the GST was implemented, we all know that Textile sector was not ready to accept GST. And that is why they were on strike or something like that was going on. So last quarter the effect was there. But in the current quarter things are normalizing and as far as GST's impact, negative impact is not there.

Jatin Damania: So we can see an increase in the volume in at least in third quarter?

Mayur Padhya: Yes.

Jatin Damania: For the time?

Mayur Padhya: Yes.

Jatin Damania: And, sir, what were the VS and H-acid realization in the last quarter, which is Q2 and what are they right now?

Mayur Padhya: See, in last quarter, H-acid average realization was Rs. 357 per kg and presently, it is traded at about Rs. 360 to Rs. 370. Sorry, that 357 was of last year. This quarter FY 2 average realization was 345, for last quarter Q2. And presently, it is traded about 360 to 370. And vinyl sulphone, last quarter's average realization was 235 and presently it is traded at about 250.

Jatin Damania: So for the H-acid, we have actually seen the increase in the realization sequentially, right? Because last quarter, the realization was in the range of 330.

Mayur Padhya: Yes, it was about 331.

Jatin Damania: Yes. And Mr. Ankit said that VS price has been corrected a bit post Diwali. But if you're looking on the sequential in the current basis, we are seeing the increase in the prices. So, how do we foresee a trend going ahead because we will be starting with a seasonally low figure starting from December to February?

Mayur Padhya: See, normally the third quarter, there is Diwali as well as Christmas. So some effect is already there. That's historical data. So otherwise, there is no issue as far as GST is concerned or other things are concerned. And prices of vinyl sulphone and H-acid are stable at bit higher level at present.

Jatin Damania: Okay. And sir, how do we see a traction in Trion Chemicals? Can you help us with some numbers? How was the performance first half?

Mayur Padhya: See, Trion Chemicals, also as you are aware that we hold 42% and balance 58% are held by three individuals. And they are the people who brought this project to us by getting all kind of sanctions and by obtaining the land etc. See, frankly speaking, this project is new in India and initial, up to production level there was no issue. And we brought the technology from China. But in China also, to treat the effluent or to become a zero discharge was a challenge. So that level, they were not confident. And we were struggling this bit level in that area. But presently we can say we are almost near to the solution. And from next quarter, it will start giving good contribution.

Jatin Damania: So we can expect Trion to contribute from the next quarter?

Mayur Padhya: Yes. Next quarter.

Jatin Damania: So what was the level at which you were operating in this quarter?

Mayur Padhya: See, we were operating hardly at about 15%.

Jatin Damania: Okay. The last quarter we were operating at 25% to 30% capacity. So the utilization has come down, right?

Mayur Padhya: Yes, because of these issues, because we do not want to increase the production with this issue in effluent. We want to have full solution and then we want to go ahead.

Ankit Patel: So Ankit here. I would like to comment on that. Since it is a new production and new technology, we did have couple of small issues. So recently, about one month ago, we were able to tackle everything within our technical team only. And now, we have started the plant and again I think things are very smooth now. The more important part is that we have supplied to almost all the major buyers in the US and we are currently in the process of fulfilling our first orders, initial orders from some of the buyers, whom we did not export to yet. But we are in the process right now. And very soon, it will all be completed and repeat orders will start coming. So it has all better as far as the supply is concerned and the production quality is concerned. So it is being approved by almost all the major buyers in the US. So we should see a very high increase in the overall volumes of production and sales, I feel within maybe 2 to 4 months. So once we start doing that, getting orders from all the large buyers, and our plant is now working smoothly. So in about 2 to 4 months, we should jump from maybe 20%, 30% utilization to maybe 50% or 60% utilization. This is what I feel is going to happen in few months. It is now positive as of now, I mean it is not producing positive numbers right now maybe. But very soon, it is going to change.

Jatin Damania: Yes. That's good to hear. Because in the last quarter when we had discussion, you were mentioning that you were expecting about 45 crores to 50 crores of the revenue in this financial year and expect to breakeven Trion in second quarter of FY18. So, can we safely assume that the run rate of 45 crores, 50 crores can come in FY19 and probably we can see a breakeven in the first quarter of FY19?

Mayur Padhya: FY19 beyond 45 crores seems possible now. See, in the last three months, there are good couple of positive development in that area. So we are confident to do turnover beyond 45 crores in next year itself.

Moderator: Thank you. We will take the next question from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

Srinath Sridhar: So I just wanted to know, so SPS will not start its vinyl sulphone now. So, is it going to be a possibility or is it delayed?

Mayur Padhya: See, it will start production next quarter.

Srinath Sridhar: But the availability was an issue, right?

Mayur Padhya: Yes. See, transportation of ethylene oxide and permission to use, to consume ethylene oxide over there that was taking time. Otherwise, at plant level we were ready. But these are something, which are out of our control.

Srinath Sridhar: Correct. So one quarter full production is possible?

Mayur Padhya: No. Next quarter, production will start. So full production should be there from next year.

Srinath Sridhar: Okay, fine. And sir, in liquid dyestuff, are we seeing any growth in it?

Mayur Padhya: See, not much. It is a very slow process. But yes, things are improving, but not to the expectation, which we were anticipating earlier.

Srinath Sridhar: What would be the utilization? Sales numbers at least so far in H1?

Mayur Padhya: Yes. Utilization earlier it was say 20%. So we have reached to 25%, not much more than that. Here, the paper mills are taking much time in approvals etc. So once it get clicked, then there can be immediate jump, is possible.

Srinath Sridhar: Okay. And in LABSA also, we don't see any scale up. Last quarter, you said that some dynamics of it has changed. So I don't think we will go for the 18,000 metric tonnes additional expansion, right?

Mayur Padhya: Correct. See, there have been several developments which were not positive for that product. So presently, we are not going for additional expansion in that product.

Srinath Sridhar: Okay. But is it viable to continue the current one?

Ankit Patel: Yes, it is viable to continue because whenever there is a dip in sulfuric acid price, sometimes it goes even below the production cost. So at that time, we can consume that and have a value addition and avoid that loss. So that is there.

Srinath Sridhar: But there seems to be a dip in Basic Chemicals because realizations were 6,500 per metric tonnes last year in Q2. And now, based on the volume data that you gave, it seems to be 4,700 now.

Mayur Padhya: See, that depends upon the mix also. It has several products like beta naphthol, PNA. They are Rs. 100 plus in value per kg. Whereas sulphuric acid, oleum, they are in the range of Rs. 5 to Rs. 15. There is a huge production or rather improvement in beta naphthol that can affect positively. Or it can also affect negatively if there is a lower production. So we cannot have a proper judgment just by dividing the quantity with number.

Srinath Sridhar: Okay. And sir, this thionyl chloride will be coming in, in FY19 first quarter?

Mayur Padhya: Yes.

Srinath Sridhar: And any scope for margin improvement after that comes in? Your current margins maybe for this year will end at about 17.5 or something. So, will there be any scope with 100, 200 basis point improvement?

Mayur Padhya: See, we have been continuously guiding market, that for this business, our minimum EBITDA is 15%-16%. But we are in the process of setting up thionyl chloride, co-generation power plant and additional capacity of Dyestuff. So once all three will ready and start giving its effect, we will definitely have 2.5% to 3% jump in the bare minimum level of the Company.

Srinath Sridhar: So you mean to say 2.5% from the 15% to 16%. So it will come to about 18.5%?

Mayur Padhya: See, presently bare minimum is 15%-16%. Then we can confidently say that our bare minimum is something 18%. Beyond that, whatever we can do, that is bonus for us. And, it is possible.

Moderator: Thank you. We have the next question from the line of Dhruv Kashyap from Edelweiss. Please go ahead.

Dhruv Kashyap: I just wanted to check that actually my first question is that the promoter holding is significantly decreasing. Is there any particular reason for that?

Mayur Padhya: See, there are two groups. In promoter group, one is promoter family and there are several persons who were professional category. And when it was a partnership firm, then at that time, they were given some free equity kind of things. So they are selling their share. Whereas the core promoter family, which were having almost 44% before two years, they have increased their share to 51%. So they are increasing. But yes, after QIP, that has decreased. But the core promoter family is increasing their share. Those who are selling is a professional promoter.

Dhruv Kashyap: So the core promoting holder has gone up from what to what?

Mayur Padhya: From 44 to 51 before QIP effect. In last one and half year.

Dhruv Kashyap: Okay. The other question I had was that you had a total of three CAPEX expansion projects. Can you just give some timeline on when one, two, and three will come on-stream or start commercial production?

Mayur Padhya: See, Dyestuff production will start from next quarter itself. So by March, that will operational. Co-generation power plant also, we have a target to complete next quarter. But it is a new project. So it will require certain time for setting up. So it will require one another quarter. So maybe four, five months, it should be ready and giving effect. And the third is thionyl chloride. That will require at least six months. So we can expect the production from first quarter of next year.

Dhruv Kashyap: So, sir, if I've understood you correctly, you said that one will happen in Q4 FY18, one will happen in Q1 FY19. And I haven't understood third, sorry.

Mayur Padhya: Third one is also Q1 FY19.

Dhruv Kashyap: Okay. So Q4 FY18, Q1 FY19, and Q1 FY19.

Mayur Padhya: Correct.

Moderator: Thank you. We will take the next question from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions. Did you give the number that there is a 13% value erosion in 12% volume erosion during that quarter two, if I heard you correctly?

Mayur Padhya: Yes, it was, that rough ratio is correct.

Giriraj Daga: Okay. What was the first half similar number like volume and value?

Mayur Padhya: Yes. First half will also be a bit lower as compared to, see we have given the things in our presentation. So in the second quarter, there was a bit more effect of the price and quantity both. But in first quarter, things were more or less stable. There was this slight dip, so consolidated Q1 that is in between.

Giriraj Daga: Okay. But my idea of asking was that like what kind of volume growth we are guiding for FY18 per se?

Mayur Padhya: Volume growth, overall?

Giriraj Daga: Yes, overall.

Mayur Padhya: Overall, there shouldn't be much increase because in the two quarter, we have a bit dip. So balance two quarter, even if we do better, after recompensing the loss in first two quarter, it is difficult to do better.

Giriraj Daga: And so we would expect the flat volume or slightly decline compared to last year?

Mayur Padhya: Either flat or maybe 3%-4%-5% decline.

Giriraj Daga: Okay. And in terms of prices what you gave, obviously 2Q you are looking better compared to last two quarter average. And the volume is also looking better, you said. So when you look at the margins, so should we take this 18% because you had mentioned about 15%-16% margin and when I look at the prices now, prices are better, volume are better. So should we do better in the second half compared to 18% what we have achieved so far? Or was there any one-off in the quarter? Or maybe we have controlled some cost, which will again come back in the third and fourth quarter?

Mayur Padhya: See, we have been guiding. But in last 3-4 years, we have been continuously achieving 18% to 19% margin. So it will continue in shorter run.

Giriraj Daga: And the idea of asking is that like we already in the first half, our margin is about 18.2%.

Mayur Padhya: Correct.

Giriraj Daga: And if we are talking the same thing, second half will be better compared to first half in terms of volume and as well as prices. So, ideally, you should be doing upward of 20% kind. So, is that a possibility? Or was there any one-off cost, one-off component involved in the first half, which will not be there and you will still be making 18%-19%?

Mayur Padhya: See, margin will not improve, but volume will improve. And that will have an impact of overall improvement in topline and bottomline, or maybe flattish.

Giriraj Daga: Okay. You gave that Basic Chemical production is 44,672?

Mayur Padhya: One second. 44,672.

Giriraj Daga: Okay. Do you also share the volume number? Since you have given the production number, do you share the volume number also?

Mayur Padhya: No, only production number.

Giriraj Daga: Okay. Just to understand, this dye Intermediate or dyestuff, dyestuff is like the value addition of Intermediates, the raw material. So the dye Intermediate, what number you gave is the gross production number, right?

Mayur Padhya: Yes, gross production number, including captive consumption.

Giriraj Daga: Including captive consumption. Okay. And what kind of a volume growth we would be guiding for FY19, any number to go by?

Mayur Padhya: No, it is difficult to say at present. But it will be definitely better.

Giriraj Daga: Okay. Rest are some industry questions. When you are saying that you are adding this 12,000 addition of vinyl sulphone, just if you can just remind us what is the total capacity in India for vinyl sulphone, or what is the total demand? So just to look at the demand absorption side.

Mayur Padhya: See, vinyl sulphone, we are not adding 12,000. Vinyl sulphone, we are adding 6,000 in SPS Processors. And by adding that 6,000 in SPS Processors, we will become the India's biggest producer of vinyl sulphone.

Giriraj Daga: What will be our share, sir? What is the share in total capacity?

Mayur Padhya: I don't have the exact number. But it will be about 25%.

Giriraj Daga: 25%. And you don't see any, like demand issue or absorption of this additional capacity?

Mayur Padhya: No, that is not there. See, because world-over intermediates are supplied by India and China only. And there is not much growth that is happening or rather no growth is happening in China. So whatever growth is happening world over in Dyestuff, that should be logically catered by India. So that is enough to, whatever growth is happening in Dyestuff, that will require additional production of vinyl sulphone. And that is what we are going to produce.

Giriraj Daga: Okay. In the initial commentary, you mentioned about that the Indian also we are restricting the production to Dahej only?

Mayur Padhya: Correct.

Giriraj Daga: So, is it for the Gujarat perspective or for the like country perspective?

Mayur Padhya: It is Gujarat perspective.

Giriraj Daga: Gujarat perspective.

Mayur Padhya: Outside Gujarat, very less production is happening. And Gujarat is most viable area.

Giriraj Daga: Okay. My last thing, inventories working capital side. If I look at this quarter, the working capital has gone up number of days. Any particular, like, one-off there? Or this is the new normal run rate?

Mayur Padhya: So there has been a slight issue because of the demand. And that is why sometime we have to give much credit to the customers. That is there. It does not have any big issue or…

Giriraj Daga: Will that trend normalize in the next two months, like, October and November?

Mayur Padhya: Yes, it will normalize.

Moderator: Thank you. We'll take the next question from the line of Parmanan Vishwanathan from Unifi Capital. Please go ahead.

Parmanan Vishwanathan: As regards Dyestuff, in first half, we have seen 10% growth. And so, is this on expected lines? Or are we going ahead with complete different phases of expansion in Dyestuff? Or would we wait for the market to pick up to do that expansion?

Mayur Padhya: See, we are going ahead with 12,000 metric tonnes. And as I mentioned, it should be operational in next quarter itself. So our plan is to have the second phase ready once we utilize optimally the first phase. That is there in our back of the mind. What else you want to know?

Parmanan Vishwanathan: Yes. So second phase is not given at this point in time? You will decide maybe after 3-4 quarters?

Mayur Padhya: Yes. Correct.

Parmanan Vishwanathan: Okay. And how much of Dyestuff is directly going to textile players and how much is going to trade? And is it predominantly a domestic business or even some exports are involved?

Mayur Padhya: See, Dyestuff export is very important. Almost 70% of the production goes to export. And balance 30%, we sell to domestic players. But domestically also, we have ready now network of dealer-distributor in almost all big cities of the country and important areas like Tirupur etc. over there we have branch also. So we are focusing to improve even domestic level also.

Parmanan Vishwanathan: So domestic level, it will predominantly dealer-distributor-driven. And what about exports?

Mayur Padhya: Exports, it's a mixture. See, country-to-country, things are different. In some countries, yes we are directly supplying to end-user. In some other countries like…

Parmanan Vishwanathan: So what will be the mix, like 40:60, 50:50?

Mayur Padhya: I don't have the number. But see, like Turkey, over there, there are many consumers. But there is a language issue. So normally, we supply to certain big traders and then they locally distribute in the country.

Parmanan Vishwanathan: Okay. Because why we post this question is, I mean, at least what we thought like if it is to direct textile players, the volatility would be less rather than supplying to the trade. You may have some long-term arrangements and so that was the idea behind the question.

Mayur Padhya: See, locally, we do not supply much to textile player directly. Because in textile, the credit expectancy is very high. And there is chances of even bad debt. So we do not want to enter into that grey area. That is why we have built in between dealer-distributor network. And credit call, they take. We supply to them, and they take further credit call. But good companies like Arvind, etc., over there we will supply directly. There is no issue.

Parmanan Vishwanathan: Understood sir. And first half, could you give us some sense of Trion and SPS? What could be the loss that could hit us and even for the full year?

Mayur Padhya: See, for the first half, loss can be around 3.5 crores to 4 crores in each of the company. And for the full year, it should not be double. It should be definitely less than that, because things will start operating from next quarter.

Parmanan Vishwanathan: Okay. I understand there are some Basic Chemicals shortage in China, which are affecting players in the dye intermediates and Dyestuff segment. Are we also facing similar problems?

Mayur Padhya: See, quantity is not an issue. But yes, prices are bit improving, led by crude improvement. But availability is not an issue.

Parmanan Vishwanathan: Okay. And what will be the current net worth after the 225 crores equity infusion? And what is the core promoters stake now, post QIP?

Mayur Padhya: See, present net worth is almost 600 crores. And core promoter is at 46%.

Moderator: Thank you. We will take the next question from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: Sir, my first question is with respect to Trion Chemicals. Now, since as we have just stated, the issues related to supplier, the product has been taken care of. Earlier, we had guided for revenues of around 45 crores to 50 crores for the year. So considering that we still have around four months to go, for the year to complete, so what kind of revenues are you guiding for FY18 now?

Mayur Padhya: See FY18 as I mentioned, we have lost most of the time, which was available to us. See, production was started, but to stabilize the effluent area that requires much of the time. And there was a loss of much of the period for the current year. So current year, we do not expect beyond, yes, it can be 15 crores or so, not more than that.

Kavita Thomas: Okay. And since it would be a normal scenario for FY19, so would we still expect the earlier targeted revenues of around 250 crores plus for the entire over the next two years or how is it? How do we see the revenues of this business for FY19?

Mayur Padhya: See in 19, we cannot reach to that level. And we have been continuously guiding market that it will require 2 to 3 years at least to reach the optimum level.

Kavita Thomas: Peak level.

Mayur Padhya: Yes, peak level. And the present planned capacity is 12,000 metric tonnes. And as we are seeing the stabilization, once it is stabilized, say for 3-4 months, then we are considering to even increase its capacity.

Kavita Thomas: Okay. But we still expect EBITDA margins of around 20% plus from this business?

Mayur Padhya: Yes, it seems possible. Once we improve the utilization level that is something very much possible.

Kavita Thomas: Okay. And next on this liquid dyestuff, even last quarter you had guided stating that there were some pending approvals from Europe. So what are the regulatory hurdles that we are still facing on account of which these approvals are still taking time?

Mayur Padhya: See, it is not a regulatory approval. It is approval by paper mills. Paper mills' quality department, for them it's an important area. So once they approve, then we can start supplying. And normally, they enter into yearly contract. So we have to be there in queue till the next order is released. So that is taking time.

Kavita Thomas: Okay. And are we still maintaining our FY20 guidance of what we had discussed in the previous quarter of 15,500 million to 19,500 million?

Mayur Padhya: Yes, it is very much there.

Kavita Thomas: Okay. So these quarter-on-quarter delays will not impact our FY20 targets? That we feel will be achieved?

Mayur Padhya: Yes.

Moderator: Thank you. We will take the next question from the line of Naushad Chaudhary from Systematix Shares & Stocks. Please go ahead.

Naushad Chaudhary: Sir, I have a question on the export side, sir. As our export is down around 14% year-on-year and you said the reason is competition, so just wanted to understand, is this competition from the Indian players or are we seeing the competition from other region?

Mayur Padhya: No, from Indian players mainly.

Naushad Chaudhary: Okay. And if you can share the export contribution in our total top line historically, how was it five years back and how is it now?

Mayur Padhya: See, five years back, it was about 40%-45%. At that time, we were focusing only on export for our Dyestuff. Out of our total production, 90% was export. And then slowly and gradually, we started focusing even on domestic. That's why that is on a decreasing mode.

Naushad Chaudhary: Okay. And you shared around 70% of your Dyestuff production is for the international market? And how much is for DI? How much production do we export?

Mayur Padhya: For DI, it is about 25% only.

Naushad Chaudhary: Okay. And any comment on the raw material prices, sir? How it is behaving in 3Q FY18?

Mayur Padhya: See, Q3 that has improved compared to last quarter because there is an improvement in crude and stable at higher level. So we have been experiencing certain improvement in certain raw material prices.

Naushad Chaudhary: Okay. So you don't see any margin pressure in this quarter and going forward?

Mayur Padhya: Not much.

Moderator: Thank you. We will take the next question from the line of Anubhav Sahu from Money Control Research. Please go ahead.

Anubhav Sahu: Sir, as you elaborated about the key projects regarding Dyestuff expansion as well as thionyl chloride and co-generation power, they would be over in say, next 5 to 6 months. And they are expected to aid margins by say, 200 basis points. So would it be fair to assume that fiscal year 2020, if not 2019, will witness that kind of minimal expectation in margins?

Mayur Padhya: Yes, very much.

Anubhav Sahu: So, the kind of data you have given on the volume and what we understand from the pricing front, so there is a big slump in the Basic Chemicals side. And that I want to understand it well that is it because of the global pricing trend, or is there a product mix change in the Basic Chemical itself, which was contributing to it?

Mayur Padhya: See, it is not impact of the global pricing or something like that. It is because our consumption. See, most of our Basic Chemicals are consumed in-house or it is supplied to other dye intermediate producers. So when our production or even in industry production is less, the demand itself is a bit less. That's why there is a big hit in this area. There is no effect of a global scenario.

Anubhav Sahu: Right. And sir, on the exports, how the situation is for the current quarter? I mean, in terms of competition and in terms of volume growth in that front, do you think that in H2 we would be able to make up for the loss in H1 on the export side?

Mayur Padhya: Yes. Things are improving. It will be definitely better than the Q1.

Anubhav Sahu: Right. And sir, could you give any guidance on the topline growth for this fiscal? Would we be able to match what was for last fiscal or would be little lower than that? I mean, how the traction on the topline growth you see for the H2?

Mayur Padhya: See, topline, we were earlier anticipating it should be flat or so. But because of last quarter's loss, it seems difficult to reach to that level.

Anubhav Sahu: Right, sir. And sir, for fiscal year 2020-2021, what kind of mix in dyes and dye Intermediate we can see now? I mean, given the expansion plan we have in place, so what kind of a revenue contribution or the volume contribution per se we can see?

Mayur Padhya: See, Dye Intermediate and Dyestuff data seems get interchanged by 2021. Dyestuff presently contributing about 25%-30%. And Dye Intermediate is contributing about 55%. So, within three years, that figures will get interchanged. Dyestuff will start contributing more than 50% and Intermediate will be about 30% or so.

Anubhav Sahu: Okay. So any incremental news from China as far as the production cuts are concerned? As per your assessment, do the production cut cycle, which we have seen for last couple of years, is it over? Or do you still see that kind of a supply constraint getting worse from, if it get much more worse actually as far as China is concerned? So how is it…?

Mayur Padhya: Yes. There is no much news, but it seems stable. So they are not even gaining the market. At the same time, there is further reduction in production, such news is also not there. So things are stable over there.

Anubhav Sahu: Okay. And sir, the key players, I mean, is there any capacity which has come back? Last time, you said, I think there's some partial comeback as far as the capacity is concerned. But probably, it was more for the domestic use, not for the exports.

Mayur Padhya: Correct. So for export, there is no such capacities coming up. And whatever capacity is there, there is no permanent close down. All units seem restarted. But they need to operate at lower level compared to what level they were operating earlier.

Anubhav Sahu: Okay. And any transitory effect or winter effect, which we see for other stream of chemicals? Is that the same for dyes and dyestuff?

Mayur Padhya: No, there is no such thing.

Moderator: Thank you. We will take the next question from the line of Praghya Karma from Edelweiss. Please go ahead.

Praghya Karma: I basically want to understand this huge fall. I realize that you mentioned there is 12% to 13% of volume de-growth and to a similar extent, we had value de-growth. But in the same market, your competitors are maybe de-growing marginally and some of them have done well as well. So, what is your comment on this? Like because this is some huge number, 23%-24% of de-growth. So just trying to understand that.

Mayur Padhya: It's difficult for me to comment about other company. See, their product mix can be different and our product mix is different. See, for us vinyl sulphone is the key production area. And vinyl sulphone has contributed both way last year. See, itself its contribution when we sell vinyl sulphone; at the same time, when we consume vinyl sulphone in production of Dyestuff. So that is there also. So there was dual effect last year, positive effect of last year because of vinyl sulphone. And once prices of vinyl sulphone has regularized, both the level effect was there. And further GST has also affected. That's why our revenues are less.

Praghya Karma: So vinyl sulphone would be what percentage of your total revenue?

Mayur Padhya: It can be about 30%.

Praghya Karma: And H-acid?

Mayur Padhya: H-acid is about 20%. Last year, vinyl sulphone was maybe more than 30% both way. But now, it has regularized. So it has come down to about 22%.

Praghya Karma: And coming to like earlier, we were guiding that we will end this year maybe flattish compared to the previous year. But I understand, to the previous caller you were explaining that you might not be able to sustain that. So I want to understand what kind of impact will you see? Will that impact be like really significant? Or like, how do we end this year?

Mayur Padhya: See, the impacts will not be much significant. When earlier we were guiding flattish year that was because we were anticipating that whatever loss will be there because of vinyl sulphone that we will recoup from Trion as well as SPS. But at both the places, there are because of certain reason there is a delay. And that's why it seems difficult to reach to last year's number.

Praghya Karma: Is it possible to give some guidance on percentage tonnes? Like, because third quarter is supposed to end sometime soon. So you already have nine months data with you. So possible for you to guide it in terms of percentage?

Mayur Padhya: Difficult.

Praghya Karma: Okay. And our current Dyestuff capacity is 25,000 tonnes, right?

Mayur Padhya: 17,000 metric tonnes.

Praghya Karma: But we added 8,000 tonnes and then it is supposed to be 25,000 tonnes, right?

Mayur Padhya: See, we have changed that plan from 8,000 to 12,000. And that 12,000 is going to be operational by next quarter.

Praghya Karma: And year-on-year you plan to add another 12,000 for next 2-3 years, right?

Mayur Padhya: Not every year. But once we reach to optimum level, by that time, next phase should be ready. That is what our plan is.

Praghya Karma: Okay. And for every 12,000 tonnes, how much are we spending exclusively just for this Dyestuff plan? Because what I understand is that you already have ETP facility available for this kind of capacity, right?

Mayur Padhya: See, for this phase, we are spending almost 55 crores. For next phase, things are yet to be finalized.

Praghya Karma: Okay. And so if I have to go by the guidance of maybe 1,800 to 1,900 crores in FY20, so are we prepared? Or do we have that kind of confidence that year-on-year from next year, we will grow at some 20%-25% kind of a rate?

Mayur Padhya: See, topline growth is not in our hand. That is related to raw material prices and raw material are related to crude. So the broad margin range what we have given is 1,500 to about 1,900. That is what we will achieve by 2020. And that we are sticking to that.

Praghya Karma: So considering the current prices prevail, do you see that kind of a growth, year-on-year of 25% kind of a growth is possible from next year onwards?

Mayur Padhya: Yes, it is possible. See, because our Trion, SPS, new Dyestuff capacity, and this thionyl chloride, both will, rather all four area will add to topline. Thionyl chloride will be marginal. But other three area will start contributing from next year. So that is something very much possible.

Praghya Karma: Okay. And every incremental 12,000 tonnes, like what kind of revenue it will give you?

Mayur Padhya: It can give us net revenue of 115 crores to 120 crores, after removing the droppage in dye intermediate, because our captive consumption will increase.

Praghya Karma: Yes. So this is including the droppage in your dye intermediates, right?

Mayur Padhya: Yes. This is net increase.

Praghya Karma: What kind of losses will you see there? I don't mean losses, but what kind of reduction will you see in your dye intermediates then?

Mayur Padhya: See, overall there will be growth of say 225 crores to 240 crores. But 120 crores will be droppage in intermediate. So net about 115 crores to 120 crores of incremental revenue will be there.

Praghya Karma: Okay. So basically, like FY19 and FY20 is to be driven by Trion Chemicals and SPS and coming up in dyestuff. Is that correct?

Mayur Padhya: Yes.

Praghya Karma: Lastly, if you can give me the breakup of the QIP fund which will be deployed?

Mayur Padhya: See, QIP we have raised for these three projects. At the same time, there is additional requirement of working capital. So that will be deployed accordingly within, say one year.

Praghya Karma: Is it possible to give the break-up in the areas where it will be deployed?

Mayur Padhya: See, these three projects are costing almost 155 crores; thionyl, co-generation power plant, and dyestuff. So balance is there. So some part will go for vinyl sulphone expansion at SPS and balance will go for working capital.

Praghya Karma: Okay. So my last question is on the, as we are already closing third quarter, so do you see that kind of growth coming in that you are confident that for the full year, we'll not be significantly lower from what we achieved in financial year 17?

Mayur Padhya: Yes, there can be slight droppage, but not that significant, because this quarter and next quarter seems good.

Praghya Karma: Okay. And on EBITDA level front, because for last maybe 6-7 quarters, we have been maintaining the range of 18% to 20%. So if I have to consider this, considering the China impact has been taken care of and we are kind of stabilizing at these margins, is it safe to assume that when you talk about 2.5% to 3% kind of margin jump, you are assuming that your current stable margins are 18% and probably in FY21 or FY20, you would be achieving ahead of 20% kind of a margin?

Mayur Padhya: That is possible. But we are not claiming 20%. What we are claiming is bare minimum 18%.

Moderator: Thank you. We will take the next question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: I just wanted to confirm the losses in Trion and Liquid Dyestuff for H1.

Mayur Padhya: See, H1, Trion and Liquid Dyestuff, both has not contributed any significant number.

Anand Bhavnani: But what would be the losses, sir? There would be losses, I presume, because they're operating at…

Mayur Padhya: Losses, so in Liquid Dyestuff, there's no losses. The utilization level is low, but there is no losses. It is contributing somewhat in the profit. But in Trion, yes, in the first half, there is a loss of in the tune of 3.5 crores to 4 crores.

Anand Bhavnani: Okay. And sir, with respect to Trion, Mr. Ankit indicated that in 3-4 months if we get good traction, we could be having capacity utilization of around 50%. With Liquid Dyestuff, any such ballpark estimate when you would be able to touch that 50%-60% utilization level?

Mayur Padhya: See, we were anticipating to achieve that in the next year. But the things are not moving the way which we were expecting. So it may be or may not be possible next year, because the marketing area, which is not in our hand, that's why it's difficult to comment. But as far as Trion is concerned, we are confident about production as well as marketing both areas. So it seems that we'll achieve it.

Anand Bhavnani: Okay. And sir, apart from GST, any other factors that might have negatively impacted this quarter?

Mayur Padhya: No, there was no other area which has impacted us.

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

Siddharth: On the raw material front, have we seen any kind of pressure in terms of cost escalation? Because this quarter when I see, the raw material cost as a percentage of revenue has gone up a bit on a sequential basis.

Mayur Padhya: See, in last quarter, there was not much impact as far as the raw material is concerned. But in current quarter, crude is at a higher level. So there is an impact, a bit. And at the same time, we are experiencing positive movement at the finished goods level also.

Siddharth: That's what you have said on the realization front, it has improved?

Mayur Padhya: Yes, realization has also improved.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to the management for their closing comments.

Ankit Patel: Yes. Thank you very much for participating in our conference call. If anyone's questions remain unanswered, they can directly contact us. We'll be happy to answer them. Thank you. Thank you very much and good bye.

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

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