



“Bodal Chemicals Limited Q2 FY20 Earnings Conference Call”

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CHEMICALS LIMITED**
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LIMITED**

MODERATOR: **MR. DIPESH MEHTA – SBICAPS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Bodal Chemicals Limited Q2 FY '20 Earnings Conference Call hosted by SBICAPS Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Dipesh Mehta from SBICAPS Securities. Thank you, and over to you, sir.

Dipesh Mehta: Thank you, Neerav. Good afternoon, everyone. We at SBICAP Securities are pleased to host quarter 2 and first half FY '20 earnings conference call of Bodal Chemicals Limited. We have with us the senior management team of Bodal Chemicals represented by Mr. Ankit Patel - Executive Director and Mr. Mayur Padhya - CFO. We will begin the call with opening remarks from management and followed by Q&A session.

So without much further ado, I would like to hand over to the proceedings to Mr. Ankit. Over to you, sir.

Ankit Patel: Thank you so much. Good evening, everyone. Thank you for joining Q2 FY '20 conference call of Bodal Chemicals Limited. On today's call, I have our CFO, Mr. Mayur Padhya, with me as well. I hope all of you have got an opportunity to see our financial results and analyst presentation filed with the stock exchanges, and is also uploaded on our website.

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

On the business strategy front, we are gradually moving towards a global dyestuff player. We have opened up several warehouses and marketing offices in India and overseas as well, which we will be adding further in future as per requirements. In August 2019, we acquired 80% stake at Sener Boya in Turkey, which is our marketing base for Turkish and surrounding countries. And recently, we opened a subsidiary in Bangladesh, mainly for marketing of our dyestuff. We will be increasing the share of B2C in overall dyestuff business going ahead. All these efforts will increase dyestuff share in total revenues, further integrate our business, leading to stable margins and increasing profitability in the coming years.

Considering the current market and demand scenario, we have decided to defer our CAPEX plans, which were announced in May 2019. We are reviewing each project, its capacity and timeline. Due to deferment of these projects, our 5-year plans announced in May 2019 also stand deferred.

Our total production for Q2 FY '20 improved by 2% year-on-year to 64,109 metric tonnes. However, our dyestuff production was down 25% year-on-year, mainly due to low demand because of slowdown in the overall economy and global markets. We believe dyestuff production should pick up very soon. Production at our Thionyl Chloride plant has picked up and reached around 50% utilization in Q2 FY '20. Total production for H1 FY '20 remained flat year-on-year.

During the quarter, average prices of VS came down to around Rs. 197 per kg from Rs. 311 per kg in the same quarter last year, while average H-Acid prices for the quarter stood at 380, which was 502 last year. The consumption levels have come down, and there is a slowdown in the economy globally due to which the prices of our finished goods as well as raw materials have come down.

Our standalone total income declined by 31% year-on-year to 260 crores in Q2 FY '20, mainly due to lower demand in extraordinary finished goods prices during H1 FY '19. Our standalone EBITDA margin, including other income for the quarter stood at 11%, which was impacted by lower sales and higher operating expenditure. Our PAT for Q2 FY '20 stood at 24 crores, which was down 44% year-on-year.

On the subsidiaries front, SPS posted revenues of 26 crores with EBITDA of 2.1 crores in Q2 FY '20. Considering the current demand and prices of dye intermediates, we are not starting the VS plant at SPS, and we will decide about it in the next quarter. Trion posted a loss of 2.6 crores in Q2 FY '20. We are making few safety-related changes and modifications in Trion, and we are hopeful to start production in the next quarter. We are committed to minimize the losses at Trion going ahead.

The integrated and rugged business model that the company has will ensure stability and sustainability going ahead.

Thank you. I will now request Mayur to take up the financial performance in detail.

Mayur Padhya:

Thank you, Mr. Ankit. Good evening to all. On the financial front, our standalone total income declined by 31% year-on-year from Rs. 3,761 million to 2,603 million. Our standalone EBITDA, including other income, stood at Rs. 279 million in Q2 FY '20. Standalone EBITDA margin stood at 11% for this quarter, which was lower due to higher operating expenditure and lower sales. Our finance costs have increased to 34 million, mainly due to higher utilization of working capital. The net profit for the quarter stood at 242 million. Our exports stood at 1,797 million and its share in the total revenue was higher at 51% in Q2 FY '20, against 47% in Q2 FY '19. Thank you. And now I open the floor for question-and-answer session.

- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Jatin Damanya from Kotak Securities. Please go ahead.
- Jatin Damanya:** Sir, just wanted to understand what was the key reason of increasing the other expenses on the standalone basis during the quarter? And secondly, how are the realizations as far as the dye intermediates are concerned going as of now as compared to the Q2 average?
- Ankit Patel:** So the current prices have also come down compared to the Q2. But parallelly, if you compare to the Q2, the raw materials have also come down. I would say, everything single raw material that the company is buying right now is probably at the lowest price in last 3 to 4 years. So they have corrected. Our H-Acid has come down to around Rs. 350 levels and VS prices come down to Rs. 180 levels.
- Jatin Damanya:** But sir, how do we see it going ahead? Because as of now, we have stopped the VS operation at SPS, so how do we predict dye intermediates going ahead even though dyestuff expansion is going on at a large scale?
- Ankit Patel:** So SPS Vinyl Sulphone expansion is almost ready. There are some expenses that need to be done. For example, there's an electricity line that we need to get. For that, we need to pay some high expense to the electricity board. And then there are some other expenses like storage items and all. So these expenses, we want to, since the market right now is dull, we don't see an immediate demand, extra demand. So for that same reason, we don't want to end up doing those expenses also at SPS in order to start Vinyl Sulphone production. So just for a temporary reason, we have thought that to control all those expenses, we will start the Vinyl Sulphone plant when the demand becomes normal.
- Jatin Damanya:** Okay. So at least for the 1 quarter, shall we assume that SPS will be not operational or in FY '21 only it will come in place?
- Ankit Patel:** No, SPS is operational at the moment.
- Jatin Damanya:** For VS.
- Ankit Patel:** For VS, I would say at least another 2 months or so because I don't see any immediate demand going up in a month or two.
- Jatin Damanya:** And sir, how about the Trion thing because it still continue to report loss and loss is almost in first half, we have done almost 5 - 5.5 crores of the loss in this first half of FY '20. How do we see the scenario out there?

Ankit Patel: That is true, but we had some safety issue there, so that one thing we are attending. And other than that, there is also some modifications that we observed while the plant was operational that it did improve. So since the technology provider and the people who helped us to execute the plant are seeking somebody else's help, they will help us to improve the overall operations. So that is why that is taking longer. But since we were doing the safety measures and trying to fix those problems and improve those, we have taken up all the jobs because we don't want to stop the plant and production once it starts, then it should be operational smoothly.

Jatin Damanya: So sir given the current scenario as far as the Trion is concerned, the problem that we are facing in SPS in terms of setting up a VS plant and the fall in the dye intermediate prices further in the Q3, do we expect on the consol level our margin will improve from 8.4%, what we reported, or we'll see a further pressure on that?

Ankit Patel: I think SPS should remain at the same level. Trion, there still needs to be some work to be finished. And the current margins that we saw in the Q2, I think similar kind of margins can continue because the raw material prices have also come down. If you look at all the other businesses, our power plant is now performing well. Thionyl Chloride utilization reached to 50% but last 1.5 months production is more than 70%. So that also is doing well. The prices are lower, but still there are good margins there. Other than that, intermediate and dyestuff business, obviously, there's a bit slowdown and demand is flat. But still, the volumes are definitely there. It's not that the sales have come down to 50% or something, the sales is definitely there. But it is a bit under pressure because of the lower demand. So percentage-wise, I think the margin, obviously, that's our target to at least on that much of margins, what we did in Q2.

Moderator: Thank you very much. The next question is from the line of Saket Saraogi, an individual investor. Please go ahead.

Saket Saraogi: Sir, I'd also like to know like what was the major reason for sudden drop in the prices of the finished products?

Ankit Patel: The finished good, I think that has a lot to do with the overall scenario. There is the global slowdown, whatever has been happening since the last few months. I think that has a lot to do with it because our exports are also around 51%. So Indian numbers, Indian GDP growth, Indian manufacturing production growth, that has all come down also, those are all indicators that overall slowdown is there not only globally but also in India. And since our exports are also 51%, we do compete with, in most of the products we compete with the Chinese. So China, again, is at trade war with the U.S. So what I feel is that the reason is very clear, because of these 2 giant economies are going through this trade war. I think that has definitely affected the routine supply and demand scenario of mainly the textile products. So when that is affected, I mean, U.S. is the largest consumer in the world. So when there's a disturbance between a routine purchase of U.S. and the largest producer in the world for most of the

products is China. So because of their ongoing conflict or issues between Donald Trump and China, I think that's one of the reasons why there is a direct or indirect slowdown globally. And that is now affecting us also.

Saket Saraogi:

And sir, the issues with China and US is clinging for more than a year now. But even the last 2, 3 quarters back, the prices were quite good and recently as we hear from the media that the deal is likely to be concluded between the 2 countries. So the sentiments should have been good in in that case, but the prices have tended to further go down you told in this quarter also prices are lower, so is there like earlier there was some benefit as a company and the sector was enjoying because of shutdowns in the Chinese plants, which have maybe started coming on stream, that is the reason or what?

Ankit Patel:

So that is definitely one reason that there were some plant disturbances in China. But more than 1 year there has not been any disturbances in China. But I think the problem now why the prices of the finished goods have reached the lowest in maybe last 4, 5 years, I think the reason is very simple, the demand is low. There are hardly any new capacities in India that have come up in last 2 years. I don't think there are any new capacities that has come up in China. And other than these 2 countries, the intermediate production is not there anywhere else in the world, only some few countries are making dyestuff. So there are no new capacities. In more than 1 year, there has been no disturbance in China. There are some areas that have been affected, but no dyes or dye intermediate factories have been affected. So I think more than 1 year, the scenario was very normal in our sector globally, but I think because of the overall demand, this has gone down. So there are no major capacities that have come out in India or China.

Saket Saraogi:

Sir, I will assume like in China, there were some plants which have been shut down. So has that any plants started, like restarting, that is the reason on the pressure on the margins or like because of the excess supply maybe the prices are falling down?

Ankit Patel:

In last one year, none of the major Chinese company plant was shut, that's what I'm trying to say that in last 1 year, there were no shutdowns. So all or most of Chinese companies are operating normally. That's what I mean to say. It's not that recently some companies started again, so there are now more supply available in the market. It's not that. That all happened 1.5-2 years ago. Two years ago, the world's largest company was shut for more than a year, so that was also a good case, but that is all more than 2 years old story. So last 1-1.5 years, there has been no major plant shutdown in China at all.

Saket Saraogi:

But sir, in our results also as we like the sales are not shoring up, it has been flat year-on-year, right? So in the case of the sales being flat, there is something missing like why the prices will fall so much? Maybe there are prices have fallen drastically by 30%-40% what it appears from the results?

Ankit Patel: The prices have come down. There's a very good reason that not just the prices of our finished goods have come down, but the prices of all raw materials have also come down. So naturally, when the raw materials have come down, there are 2 reasons: One is lower demand and second is the raw material prices. So for example, just about 2.5-3 months ago, we were buying caustic soda at around Rs. 38 – Rs. 40. Now today, we are buying at Rs. 22. Just about 3 months ago, we were buying sulphur at around Rs. 9. Today, we are buying at less than Rs. 7. So similarly, all chemicals, I mean 90% of the products that we buy, all have corrected by 20%, 30%, 40% in last just 3-4 months. So parallelly, naturally, when the demand and supply scenario is normal, whenever the raw material prices go down or they increase. Naturally, the finished goods prices also follow. So that is one scenario, and the second is the lower demand. So due to both, I think the prices have fallen drastically in this last 2-3 months only.

Saket Saraogi: And from your perspective, like it should take at least 2, 3 quarters to stabilize the prices or like how do you feel you told that the prices are further down in this quarter, so what do you think about the price?

Ankit Patel: At the current prices with the current raw materials, we'll try to study not only our cost model, but also other company's cost model. So in most products, what we feel is, this is either bottom prices or it's very close to the bottom prices. So I don't think that from the current level, there is any room for Chinese or Indian companies to let these prices slip even further. So that's why even in Diwali time, usually, there are no sales and lot of plants have shut in the maintenance and all. So pre-Diwali, there was a lot of hype that the prices will further go down after Diwali because 10, 15 days there will be no activity. But post-Diwali, the prices again are same. So because there is hardly any room, nobody is now ready to sell less than this because there are a few players whose economy is higher. They cannot even afford to sell less than this. At these prices, also they are probably earning very less margins or maybe they are breaking even hardly. So to compete with some integrated players like us and some large-scale players, and the Chinese, some players cannot even sustain when the prices are around this level.

Saket Saraogi: Sir, our company has embarked on a large capital CAPEX program, so are we on track on that? Or is there any change in the thought process because of this slowdown there?

Ankit Patel: No, there is a change, in my speech I had mentioned that we are deferring that plan as of now. We had announced in May 2019 that we are going to do a CAPEX of around (+1,000) crores. We had talked about 3 different kind of plants in there. There was a dyestuff, there was a sulphuric acid, there was a chlor-alkali business that we were planning to do at our new site near Dahej. But as of now, because looking at our current scenario as well as the global slowdown as well as our chemical sector and dye sector slowdown, we've deferred that plan as of now. We are reviewing the entire situation. Because I think what we felt is if our margins stay lower for few more quarters, then it can probably affect our overall plant to do this CAPEX and maybe to serve the interest and repayments. So what we are doing right now is that we are reassessing the entire project and the CAPEX. And we may drop a project or 2, but

we definitely want to do it, but maybe at a later date. So as of now, we are now in the reanalyzing process. So for few months, at least, we would not be starting any CAPEX.

Saket Saraogi: Okay. Apart from that, like for the existing business, what kind of annual CAPEX that we incurred, generally, for the existing plants?

Ankit Patel: Generally, we incur about 40 to 50 crores of annual CAPEX, if there are no plant-related CAPEX. That is just a general like a maintenance CAPEX and some of the routine plant items. So normally, the number is maintenance CAPEX is around 20 - 30 crores. And then depending on what kind of plant activities are going on, it varies. So as of now, we hardly have any more CAPEX item left other than the routine stuff.

Moderator: Thank you. Next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

Sarvanan Vishwanathan: So the decline, can you break it up? I'm not sure if you've already answered this. Can you break it up in terms of price and volumes?

Mayur Padhya: The breakup in price and volume is difficult. As far as volumes figures are concerned, we have already given. There is a decline of volume of production by 25% in dyestuff. Other than that, in basic chemicals, it is more or less same. And in intermediate, it has improved a bit by 10% or so. But overall effect of decline is majorly because of slowdown and lower demand. And because of this lower demand, we could not achieve higher quantity in dyestuff, and that is the main reason. So this is mainly related to demand and slowdown and not related to anything with the production.

Sarvanan Vishwanathan: Yes. That, we understood. And in terms of your CAPEX plan, just want to understand, like you've broken up it into a few projects, which one would be taken up now? Or all the projects are under review now?

Mayur Padhya: Yes, out of 3 projects, one was for dyestuff expansion. Time being, we are dropping that project. And there were another 2 caustic chlorine and sulphuric acid. That both plant, we are still reviewing.

Sarvanan Vishwanathan: Okay. So at what stage are we in? We have got the environmental clearance, the filing has been done?

Ankit Patel: This is Ankit here. We have already got the environmental clearance for the project. For the power plant, we have not got it. There's a public hearing date in December, so we'll get the clearance around January mid, but we are not in hurry at all. Dyestuff, as Mayur said, we have decided not to do it as of now because we already have a good size of installed capacities. And then in a slowdown period, we felt that there is already a challenge to utilize that capacity

fully. So as of now, we don't want to invest any more money in the dyestuff, but these 2 projects, sulphuric acid and caustic, make a lot of sense for us. But again, we have to be careful and our margins have been affected. We don't want to enter into a very heavy debt cycle or anything. So we are reviewing the entire situation. As of now, there is no investment done in both the project side. I think it's the last step. And then there won't be any investment or CAPEX that will be done for the site or for the CAPEX. So it will all be frozen for now until we make a decision.

Sarvanan Vishwanathan: Okay. And as regards Thionyl Chloride, how is the pricing environment?

Ankit Patel: Thionyl Chloride, I think quarterly average price was around Rs. 13 to Rs. 14 per kg, so which is a good price because the raw material again has come down drastically. The only 2 raw material, sulphur and chlorine, sulphur is almost at bottom and chlorine also is on lower side. So it's still a decent margin, there's lot of competition, but in October, November, we are doing very well. October, we had a production of 70%. And November is a shutdown month. But in December, we are targeting 80% production. So Thionyl Chloride is doing good. Going ahead, there's still a lot of room to improve because it's a continuous plan, so we can reach about 90%, about 2,700-2,800 tonnes of production per month. So that looks very much possible maybe around January only. And I think there are any more capacities coming up in the market. And it's a competitive price, so I don't think there'll be any new competition coming for at least a few years. So I think I see a good time that's going to be there in time for at least next 2, 3, 4 years.

Sarvanan Vishwanathan: In Thionyl, we would be using only 30% of our production, right? Balance 70% will be sold outside, right?

Ankit Patel: Yes, we use about 30%, yes. So in October, we already sold, out of the 2,100 tonnes that we made, we sold about 1,200-1,300. So that's on track. There's no issue there.

Moderator: Thank you very much. The next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: Yes. So if we look at the balance sheet, we have seen some trade receivables have gone up, so we can understand that because of the poor demand, you may have revised your credit terms. So what is your assessment? When can we see demand improvement? And from where can you see the improvement? And what is the demand-supply dynamics, if you can share, for India as well as the global market?

Mayur Padhya: Some improvement, some increase in the receivables is mainly due to lower demand. And another area, we are changing our business model. We are now more focusing on dyestuff and laser focus is on intermediate to sale. And intermediate, captive consumption, we are increasing. So both intermediates and dyestuff has a different category of customers and

different industry practice. So in dyestuff, normally, longer credit period is there. At the same time, in dyestuff, we have to keep longer and number of products, so inventory level is also required to be at higher side. At the same time, we are required to give more credit to customers. So that's why it is a bit higher side. And this will remain there for coming time. What was your another question?

Dhavan Shah:

What is the demand-supply dynamics for India as well as global market? How much is the excess supply?

Ankit Patel:

I don't think there is any excess supply that is available in the market. As I said, this is an extraordinary situation where overall demand has gone down globally, that's the reason why we are feeling, otherwise just 3 months back, we're not feeling anything when all capacities globally were working and trying to supply the materials. There was no issue at all and the margins were very good. So I think it's just due to the demand that has really slowed down. It's just a temporary situation. It can be around for a few quarters. I don't know that right now. But it's just a temporary situation where it is due to some imbalances or some problems that is going around between U.S. and China.

Dhavan Shah:

Yes. But if I remember correctly, I mean, you were highlighting that because of the pollution norms in China, their overall cost of production has gone up. I think you summarized that thing in the last concall. So even though their overall cost of production gone up, but still, we have seen some price drop for the intermediates. So if you can shed some more thoughts on that. I mean, are they selling at losses? Or what is the scenario over there?

Ankit Patel:

It is not only about Indian versus Chinese cost, it varies from player to player, from a company to company because there are many other objects when it comes to cost of production of any product. For us, we are probably the lowest cost producer of dyestuff in India or maybe one of the lowest in the world because we have a 3-step integration. And that is all happening at one single site. So we avoid most of the logistics. We use a lot of the raw materials, waste raw materials and all, byproducts and all. So we have a lot of integration that takes place. There are some companies in India, some in China also who are only to intermediates. So when they are only into intermediates, their model is very different. There are few strong companies in China and India, which have a big capacity of dyestuff, but have a very small capacity of intermediates, or they make only a couple of 2 or 3 of the main raw materials, where we make more than that. So it depends on who you are comparing. But the overall, there is definitely, it's a fact that the price or the cost of Chinese producers have definitely gone up. Earlier, they used to be less than Indian prices, Indian cost model. Because in India, there were no subsidies for power, subsidies for the export benefits are different. Their scale was much bigger. Indian players still haven't reached that scale. The labor used to be at par at Indian level. So all that have worked in the negative favor for them, all that cost has gone higher. So on that basis, I must have said last time that their cost has gone up. So at this level, let's say, if we are able to only earn about 5%, 7% net profit, so they may have some trouble. They may be breaking

even. Some company with maybe very high scale or some company with lot of integration, maybe earning something that we are doing. So it depends a lot. It depends on many things, logistics to how you can recycle things, how you can use the byproducts, a lot of integration possibilities. But overall, I would say, yes, their costing is definitely at par with Indian companies now. Their advantage is still the scale, but other than that, all other expenses, all other benefits, I think they are at par with Indian levels.

Dhavan Shah:

Okay. And the last one is about the inventories. So you highlighted that maybe for dyestuff, we have to hold some more inventories. So in last 2 to 3 months, we have seen some declines in the intermediates, as you highlighted. So how do we pricing the products with the end users? I mean how long does that take to pass on any decline or maybe increase? And because of the inventory increase, are we seeing some inventory losses? Or is there anything else, if you can share?

Ankit Patel:

See, usually, it's a continuous process. So there is no direct inventory loss in there. But whenever there is a slowdown, we do experience that the inventory days increase. So for example, this time they have increased from 50 to 60 days. So because of the slower movement, the less sales, the movement of inventory changes, and that way the inventory on hand becomes higher. So we count it as number of days. So usually, we have like 40 to 50 days. Now it is at 55, 60 days. So that is the difference. It's a continuous process of whatever financial cost is involved is involved. All the larger players, they work in the same model. Even the MNCs or the resellers who are active and who hold a lot of the stake in the world, they also work on the same model. So that cost applied to all large players, whatever financial costs is there to maintain the inventory that applies to all. So that is there in everybody's cost model. Anything else on this?

Dhavan Shah:

What is your average cost of inventory, I mean, the main raw materials versus the prevailing price?

Mayur Padhya:

Our R&C raw material cost is normally between 60%, 62%. Is that you are asking?

Dhavan Shah:

Yes. And major raw material prices, if you can share, and the average cost when you bought it?

Mayur Padhya:

See, major raw material prices, if we compare with the last quarter, as Ankit bhai mentioned, in the last quarter, our average price for Sulphur was about Rs. 8.60 p, which is at present Rs. 7 or something like that. Caustic soda flakes and caustic soda lye, earlier it was about 31 and 29 level, which is at present 25, 24 level. Same way refined naphthalene last quarter average was about 65. Presently, it is about 54. Crude naphthalene, which was at about 48, which is presently is about Rs. 44. So another caustic, yes, 6 Nitro, which was 460 last quarter average, which is at present about 395. So there is a droppage in finished goods as well as raw material prices also.

- Moderator:** Thank you very much. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** Sir, could you give the production breakup between three segments I mean, in the presentation, it's not given.
- Mayur Padhya:** Yes. In presentation, it is there as last 2 slides as annexure.
- Kishan Shah:** Okay. So I did not check that...
- Mayur Padhya:** Yes, after the Thank You slide, there are 2 slides of annexure. Over there, it is there.
- Kishan Shah:** Okay. So maybe I think I don't have the revised presentation.
- Mayur Padhya:** Okay. We have uploaded today itself, so.
- Kishan Shah:** Okay. Yes, I'll check that. And sir, this tax, the new tax regime that we have adopted, so what would be our annual savings roughly?
- Mayur Padhya:** Yes, earlier we were at the highest slab, so 34%-35% tax rate was applicable to us. And because of some CAPEX we have done in the recent past, our outflow was about 30%-31% was there. So that has now come down to 25%. So whatever the earning, at least 5%-7% we will save as far as income tax is concerned.
- Kishan Shah:** And there is this one company, Indian subsidiary, we haven't yet adopted for it. So by when would we adopt the new regime.
- Mayur Padhya:** For Bodal Chemicals, we have already decided to go with the new regime. And as far as our subsidiaries companies are concerned, they are already less than threshold where the higher tax slab applicable. So they were already in 25% tax regime. And one company, namely SPS Processors, that company has some MAT balance. So once we will utilize the MAT, then we'll go for the new regime. So we are already in 25% slab.
- Kishan Shah:** Okay. How much MAT credit is there?
- Mayur Padhya:** I don't have the figure, but not more than 2 - 3 crores.
- Moderator:** Thank you very much. The next question is from the line of Prashank Palan from Rockstud Capital. Please go ahead.
- Prashank Palan:** Just can you, sir, first give a breakup that what is the end use, the customers who use, how much goes to textile, to leather and to paper? Can you give just a rough number?

- Mayur Padhya:** Yes. See, normally, what capacity we have, production capacity, that is fungible, but normally, we experience about 50% of our dyestuff goes to textile, about 35% goes to leather and about 15% goes to paper.
- Prashank Palan:** Okay. So I think the recent slowdown that we are facing in dyestuff is because of textile slowdown. So do you have an outlook? What do you think, how has been this 2 months post September, and how do you see it going ahead maybe FY '20?
- Mayur Padhya:** See, these things are yet not clear, but the scenario, which we have seen in last quarter, similar things are there. And we feel that this is something at bottom or near bottom. So there is no scope or we don't foresee that things can go further worse. So it may take some time, but it should improve from here.
- Prashank Palan:** Is that the reason the textile production itself has fallen down because of which our dye requirement has also fallen?
- Mayur Padhya:** Yes. See, at the India level as well as at the global level. See, after India, China is another big country who is utilizing this textile colors in a huge manner. And because of China and U.S. trade war, consumption over China has reduced. And that is also affecting us because the supply has remained more or less at the same level, but demand is not picking up. That is why prices are down.
- Prashank Palan:** Okay. And what I could hear from some of the competitors stating that in China, the plants have restarted and they have become lenient on the environmental front. Do you have similar kind of view? Or how is it regarding dyestuff intermediates and dyestuff production there?
- Mayur Padhya:** See, China, as Ankit bhai mentioned earlier, we have not heard any shutdown in last 1 year. And whatever company, big companies, they are operating at about 60%-70% level. And Chinese government has become lenient or something like that, we have not heard anything.
- Prashank Palan:** Sir, then I wanted to understand, we have set up a subsidiary in Bangladesh. And so what is the outlook there? Are we just targeting the same textiles, marketing and sales there?
- Ankit Patel:** Yes. So we've been selling to Bangladesh companies for a long time, but then we have been selling through the local agents and some Indian agents active in the eastern part of India. But the idea is to have our own setup, our own people there that way we can target the consumer directly, so that is the idea. We have very recently started to incorporate with the company, so the operations will start very soon.
- Prashank Palan:** And sir, can you just give an outlook on the Turkish subsidiary? How is demand in Europe for dye?

- Ankit Patel:** The Turkish subsidiary is actually doing very well. This quarterly numbers that we saw in the Q2 FY '20 was not that great because it was more of a transition phase that was happening between the other company and our acquisition. But actually, the current performance is going very well. We have already increased the volumes by about 30%-40% in terms of sales. So as per the ongoing situation in the current quarter, I think it should perform well and it should definitely show a good margin. It should definitely contribute to our profits.
- Prashank Palan:** Sir in the current results, can you just help me understand why other expenses not fallen in comparison to our sales because that is a major reason why our margins have declined a lot? What component has remained fixed for us?
- Mayur Padhya:** See, mainly other expenses includes manufacturing expenses. And as you have seen, our volume has not decreased as far as production is concerned. Yes, there is some reduction as far as dyestuff is concerned. But at the same time, there is an upward movement or better production in intermediate. So when we compare it to last year, last year it was 62 crores, and this year, it's about 60.8 crores. So that production has not much reduced. At the same time, some inflationary effect is there. So that's why it is not...
- Prashank Palan:** Is it power that is there a major cost in other expenses, which has actually remained flat for us?
- Mayur Padhya:** Yes, power, so all kinds of manufacturing expense are there. At the same time, selling expenses are also covered in that. So volume-wise, there is not much decline in sales volumes. And as far as dyestuff is concerned, it requires more cost as far as selling expenses are concerned compared to intermediates.
- Prashank Palan:** And because if I compare our company with the similar competitor in the same standalone business, the thing is the fixed cost that in other expenses have actually fallen for the other players, whereas ours has remained the same. So I just wanted to understand that. Is it power or why is it not falling? Because even if your volumes remain the same, but certain costs should always fall?
- Mayur Padhya:** No. As I mentioned earlier, because some inflationary effect is also there. They have an integrated model, that's why the value of sales that is reflected outside is much lower compared to the value of production what we do inside. That is also affecting.
- Prashank Palan:** Sir, my other question would be more on the broader perspective. Can you just help me understand that how much research is required into dyes? And how is it comparable to pigments, like is it older product than pigments? Or is it that there's development happening in both sides. If we compare dyestuff as a segment and compare it to pigments?
- Ankit Patel:** So basically, there are 2 separate components. Dyestuff is mainly for fabrics. So that is basically textile, cotton-based, polyester-based and leather, paper. But pigments are mainly,

their applications are different. They mainly go into vinyl and then PVC and then plastics and also paint. So the application is a bit different. I think that's the idea. And in dyestuff, you can get more of customized colors. So in dyestuff, the variety could be 200-300 colors, and you can get for a single color, you can get different shades. Pigments is a bit different. It works differently. Pigments, you get less number of colors but there's an entire mixing methodology that happens there. And that is why the limitations in the colors is also there.

Prashank Palan: There is no replacement that happens between the 2 because applications have, over the time, always remains different, and it will remain different.

Ankit Patel: No. So they don't replace each other. For example, no pigment will ever use by textile player or no paint company or plastics company will be able to use dye as their raw material. That's not possible. I mean, they have color, yes, but they are made from different set of raw materials, different set of entire value chains.

Prashank Palan: So their end application is always going to remain the same?

Ankit Patel: Yes, they are going to be separate and remain the same, yes.

Moderator: Thank you very much. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

Siddharth Oberoi: So my query is on the TC. You said you are selling at Rs. 14 per kg?

Mayur Padhya: Yes.

Siddharth Oberoi: What are the margins you enjoy in this?

Mayur Padhya: The margins, I would say, of course, it depends on the raw materials because they're running the plant, plant cost is not that high. It's also a brownfield project, so it's right there in the campus. So there are no high costs involved there. So for example, if I talk about October, our price, our cost was anywhere between Rs. 8 to Rs. 10. And this Rs. 13 to Rs. 14 that I mentioned, that's a selling price, so that also includes on an average around 70-80 paisa of transport or maybe Re. 1 of transport. There may be some credit period finance cost that is involved. That's maybe around Rs. 500. So around Rs. 1.5 is the cost from, let's say, 13.5, so that's Rs. 12 and we probably produced at around 9 on average. So that's probably around 15% to 25%-30% margin. It depends.

Siddharth Oberoi: Okay. Also, I think, you've been talking about the slowdown. Here in one of the slides, it is mentioned that exports are now 31% of sales. And so, is this slowdown in India? Or is this now a global slowdown that you're witnessing?

- Mayur Padhya:** No, it is actually global that we feel, because now, we also sell to our Turkish company, they're also present. And the export is not new for us, we've been exporting since, even dyestuff also we have been exporting for more than now 12, 14 years. So we can just feel it from our direct buyers that we've been selling to more than 10, 12, 15, 20 years. So it's more of a global, I would say.
- Siddharth Oberoi:** Okay. And this expansion that you have actually put on hold, is this canceled or is this postponed?
- Mayur Padhya:** No, it is not canceled, it is postponed.
- Siddharth Oberoi:** Okay. You'll see the situation and then probably take this up at a later stage?
- Mayur Padhya:** Yes. We may have to reduce the number of investments that we want to do. The total CAPEX earlier considered was very high. That was considering that we may continue our decent margins, but then margins have been affected. And also, those end products scenarios also changed a little bit. So we should, I think, analyze the entire thing, entire situation, that those products, their future. And mainly, it was going to be part funded by our internal accruals and part funded debt. So we don't want to end up having a higher debt than we earlier planned. So that's why we may have to modify the plan a little bit. We are not in a hurry because in such a scenario, it's better to take some more time, wait maybe a few months. I think it's not a bad idea. So it may be a delayed decision, but we want to make a decision that really smooth the company in that situation.
- Siddharth Oberoi:** Would you be using this time to probably repay some debt and produce that?
- Mayur Padhya:** As of now, we have no long-term debt. I mean, the only thing we have is a short-term debt in all this working capital that we use. And that is in the dollar term at a very low interest rate. So now we've not really thought about that. Instead of that, what I would do is I would probably want to create some reserves that can actually support our CAPEX plan. So it's between the CAPEX or reducing our finance costs. So let's see. It's a very recent decrease in the margin that has happened. So we are analyzing the entire scenario and trying to choose the best option.
- Siddharth Oberoi:** Okay. Also in this TC, you said that you're doing very well and that you might reach 2,800 per tonne by Jan. So how is the demand scenario looking here in this field?
- Ankit Patel:** The demand scenario in October was quite okay. Though it was competitive, we were able to sell more than 1,300 tonnes, so that's a good sign in a very short term, we are reaching the commercial numbers to that level. And because TC doesn't just go into dyestuff or 1 or 2 sectors, it goes into pharma, it goes into agrochemicals, goes into dye intermediates, there are a couple of other areas also. So I think because of its presence, its usages in the diversified areas, that's why I think the selling part is probably not that difficult there.

- Siddharth Oberoi:** And who would be your major competitors be in this?
- Ankit Patel:** Our major competitor there is a company called Lanxess, it's a German MNC. They have a plant in Madhya Pradesh, so it is one and then second is a company called Kutch Chemicals. So there are no listed entities there in the Thionyl Chloride. And the Transpek Industries is there, they are listed. But as it is not selling in the market anymore, Transpek has become a net buyer. Earlier, they used to be about 40%, 50% seller of Thionyl Chloride out of the total capacity. But in the last about 3 years, they have expanded their plants and their products capacity. So I think they've become a net buyer for more than a year now. So they do not sell, but they buy it.
- Moderator:** Thank you very much. The next question is from the line of Pravin Sharma, an individual investor. Please go ahead.
- Pravin Sharma:** Sir, when do you think we will be profitable in Trion, it is quite some time we have been making losses there and our return on investment has been negative for a very long time. So when do you think we will be positive there? Earlier, chlorine prices were higher, so we didn't start production. Now they are low, but we have other problems.
- Ankit Patel:** Yes. So from raw materials point of view, I think this is a good time to be operating and trial a plant because caustic has come down to around 22-24 levels. Chlorine also is around Rs. 1.5-Rs. 2 level. So it's a good time for sure. The other raw materials also availability from China is not an issue. Just unfortunately that a couple of months ago, we had this issue, one was about the safety, some equipment and everything was done from China. So the product there, there is no other plant in India. So the technical knowledge in the overall routine maintenance and all this kind of knowledge and experience was not available here. So that's why we faced some issue. We were dependent on Chinese. So we try to pick the safety issues, that was not a very big challenge. But parallelly, we had some production issues also while the production was on, we felt that there could be some improvement, or it is not running as per the earlier planned or whatever was committed by the suppliers. So that's why, I know we are booking a loss there. We also obviously don't enjoy this. We want to turn it around as soon as possible. But then instead of having few shutdowns in a year, we prefer to have a longer shutdown where we take care of all the problems. Once we start the plan, we can go on for at least a year or so because usually our plants only have one shutdown in the year. So that's how our industries operate. So that's why we had a few issues while we were operating. So we're just trying to make sure that everything is fixed this time and there are no breakdowns. Also, we feel that we are trying to make some modification and we can achieve some better yield. So it's not an issue, but this was also there earlier when we were producing. So we felt that we have some modifications, we can probably push some yield also. So if we are doing this for a longer-term betterment, I know this currently, it is hurting us in a way, that's for sure. But for long-term, we are just trying to have a very solid plan, which will not have a breakdown and can operate continuously.

- Pravin Sharma:** When do we think, sir, we will start the production there?
- Ankit Patel:** I think next quarter, we have to start. I mean, we are trying really hard that by next quarter, we start, and then it doesn't stop for a long time.
- Pravin Sharma:** And sir, do our products enjoy any export incentives like MEIS or duty drawback or?
- Ankit Patel:** Yes. Routine export incentives, yes, we do enjoy. Duty drawback is there, there's also advanced license. We also do that against import and export. So those kind of routine export and import incentives, that is offered by the Commerce Ministry. Yes, we do enjoy those.
- Pravin Sharma:** But MEIS and RoSCTL are not there applicable?
- Ankit Patel:** No, they are also there.
- Mayur Padhya:** MEIS is there.
- Pravin Sharma:** Return of state levies, central and state levies, taxes and levies, RoSCTL, that is not there?
- Mayur Padhya:** No.
- Pravin Sharma:** So, MEIS still it is 2%? Or they have stopped paying or they are like because they are talking of moving to a new regime, which is...
- Mayur Padhya:** Yes, talks are there to demolish this thing. But still, we are enjoying 2% in our product.
- Moderator:** Thank you very much. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** Sir, so we had this total CAPEX, including all the 3 projects of 750 to 800 crores roughly. Did you already take any debt for the same? Or where are we going to take on it?
- Ankit Patel:** No, till date, we have not got even sanctioned. They were under process but we have stopped at this level only. So there is no debt raise by the company for these projects.
- Kishan Shah:** Okay. So sir, if I look at the financial, our net cash generated from financing activities has increased by, it was negative last year, 50.7 crores. This time, it is at 111 crores. So why is that increase? For what?
- Ankit Patel:** I need to check. You can call me separately for this.

- Kishan Shah:** And secondly, sir, our short-term borrowings also at the end of March 2019 were 85.8 crores. And currently, as per the financials, they are at 177 crores. So this is routine or is this for anything specific?
- Ankit Patel:** This is mainly because as I mentioned, we are changing our business model. We are focusing more on dyestuff. And dyestuff requires more working capital compared to intermediate at the stock level and at the same time, at the receivable level. And another thing, there is a slowdown, so that is why money is not moving that fast. And that's why working capital limit utilization has increased.
- Kishan Shah:** Okay. So what is the sanctioned limit?
- Ankit Patel:** Yes, we have a sanction limit of about 210 crores.
- Kishan Shah:** Okay. And sir, so this shift in the strategy that you're saying, not strategy exactly, but from dye intermediates to dyestuff, you said the working capital requirement will increase. Credit period will increase because it works on a different credit model. And the inventories will also increase. Is there any other financial impact like any other component which will increase apart from these?
- Ankit Patel:** No. See, other than this, all our subsidiary companies, all working capital requirement is being met by Bodal Chemical only. No company is enjoying any credit facility, except Trion is enjoying some term loan. So that is also there. So whatever working capital requirement by subsidiaries, that is also something from parent company. Other than that, there is no other thing.
- Moderator:** Thank you very much. Ladies and gentlemen, that'll be the last question for today, from the line of Mr. Ratnakar. Please go ahead.
- Ratnakar Bhotkai:** Sir, my question is related with acquisition, I mean, the company, which we have taken in Turkey, I think when we took it, it was profitable company with about 80 crores of revenue. So as I see it now in this current presentation, it shows 8 crores of revenue and there's no PAT. So any reasons why there is such a drastic drop in the income?
- Mayur Padhya:** See, company is doing well. One reason is that, see prices, which were prevailing last year were bit higher side and all the prices has come down. So that's why their sale has come down. But volume-wise, they are doing better compared to last year. And the losses, which is there at present, that is because of some transition period and some cleaning up of balance sheet. Some old inventory etc., we have written off. Otherwise, company is doing well, and we are confident that in the current quarter, it will add some profit to the company.

- Ratnakar Bhotkai:** Yes. But since the revenue came from 80 crores to 8 crores, kind of thinking if the earlier partner took away some customers and some businesses lost there or something like that?
- Mayur Padhya:** No. You have some different aberration. 80 crores, what we were saying, that was for the whole year, and 8 crores, what is reflected is about for 45, 50 days. So both the figures are not comparable at all. We are even better compared to last year.
- Ratnakar Bhotkai:** Okay. Sir, my second question is related with the projects CAPEX, which we have planned. So out of the 3 CAPEX, which one we have surely dropped is dyestuff CAPEX, which we have mentioned some time back. So among the 1,000 crores CAPEX, dyestuff was about 140 crores CAPEX. The major CAPEX was caustic, which was about 700 crores. So are we going ahead with that? Or that has also surely dropped?
- Mayur Padhya:** No, we are not dropping other 2 projects. We are still reviewing its capacity and the timeline. So we are waiting for the time to come when we are properly placed to go for the project. So we have not dropped other 2 projects, we are reviewing the time for the company as well as outside scenario.
- Ratnakar Bhotkai:** So the H₂SO₄ 185 crores CAPEX and 700 crores caustic CAPEX, both you are reviewing, that's what you're saying?
- Mayur Padhya:** Yes. There can be some changes, but yes, we are reviewing.
- Ankit Patel:** So what we are trying to do is maybe, for example, we can do the H₂SO₄ 500 tonnes per day plan, which we obviously we have in Baroda. So instead of 1000 tonnes per day, we can probably do 500 tonnes per day where the CAPEX would probably come down by 70-80 crores. And then second, again, for chlor-alkali, we can probably think about some capacity here or there, or maybe you can change or maybe product power plant size or something. So that way, what we are trying to do is how to probably lower the CAPEX amount that is there. So there are ways to do it. We are just trying to find the best combination, so it doesn't affect the operations or our cost in future also.
- Moderator:** Thank you very much. As there are no further questions, I'll now hand the conference over to the management for closing comments.
- Mayur Padhya:** Thank you very much from the participants participating in the conference call. If anybody's question remain unanswered, they can directly contact us, we'll be happy to answer that. Thank you.
- Moderator:** Thank you very much. On behalf of SBICAPS Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.