



Bodal Chemicals Ltd.
COLOURS. INTEGRATION. INNOVATION.

Bodal Chemicals Limited

Q3 FY2017 Earnings Conference Call

February 15, 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 Q3 FY2017 Earnings Conference Call. Joining us today on the call are Mr. Ankit Patel -- Executive Director; and Mr. Mayur Padhya -- Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. If you need an assistance during the conference call, please signal an operator by pressing “*” followed by “0”. Please note that this conference is being recorded.

Before we begin, I would like to mention that some of the statements made in today’s call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the ‘Earnings Presentation’. I would now like to hand the conference over to Mr. Ankit Patel. Thank you and over to you, sir.

Ankit Patel: Welcome, ladies and gentlemen, and thank you for joining Q3 FY2017 Earnings Conference Call of Bodal Chemicals. I also have with me on the call Mr. Mayur Padhya - CFO of Bodal Chemicals. I hope you have had a chance to go through the ‘Earnings Presentation’ and ‘Financial Results’ which are also available on the Company website.

As many of you might know Bodal Chemicals is one of the leading manufacturers of Dye Intermediates and Dyestuff globally. In India, we are the most integrated Dyestuff manufacturer and also the largest producer of Dye Intermediates. We use close to half of our Basic Chemicals output in-house in the manufacturing of Dye Intermediates. Also, approximately 40% of our Dye Intermediates output is used in-house in the production of Dyestuff. This level of integration is what differentiates Bodal Chemicals from its peers.

Talking more specifically about Q3 FY2017, operating conditions continue to be favorable and contributed to a strong quarter for Bodal Chemicals. In particular, price realizations for certain product in Dye Intermediates segment remain better. Also, the demands in the domestic market were encouraging.

Just to give you an update on our various initiatives for product innovation diversification and capacity expansion that we are working towards. First, the Specialty Chemicals that is produced by our 42% owned associate company Trion Chemicals. We have started the production of Specialty Chemicals and expect a meaningful contribution to start from quarter one 2018. The second product is LABSA, a surfactant in formulation of Domestic Detergents Powder, Cake and Dish Washer, etc. Given the initial performance of this product division and future growth potential, we have decided to double its capacity. The third product is Liquid Dyestuff, which is primarily used in paper industry for coloring the papers. We are one of the very few companies engaged in the production of this chemical.

Last, our proposed Dyestuff capacity expansion plan. The capacity expansion has started and we expect it to be completed by end FY2018. In the first phase, we expect to increase the capacity by 8,000 metric tonnes per annum (MTPA), taking the total Dyestuff capacity to 25,000 MTPA. Capacity would be further expanded by another 16,000 MTPA, over the following 3 years.

I will now hand over the call to Mayur Bhai to take you all through our financial performance during the quarter.

Mayur Padhya:

Thank you, Ankit Bhai. Good Morning everybody and thank you for being with us today. In terms of financial performance, it has been yet another strong quarter for Bodal Chemicals. Total Standalone Income increased by 35.2% y-o-y to Rs. 2,757 million, supported by better realization for certain Dye Intermediate products coupled with improvement in demand in the domestic market.

EBITDA expanded by a robust 39.7% y-o-y to Rs.572 million and margins stood at 20.8%, which is 67 basis points higher compared to the same quarter of last year. Net profit grew by 54.2% y-o-y to Rs.316 million and margins stood at 11.4%, which is 141 basis points higher compared to the same quarter of last year. Profitability for the quarter was benefited from better operating profit. Reduction in finance cost further added the margin.

We would like to mention that effective from 1st April 2016, Bodal Agrotech Limited merged with Bodal Chemicals Limited. Accordingly, the results for the quarter ended on December 2016, September 2016, and nine months ended on December 2016 includes contribution from Bodal Agrotech. The merger has contributed to a revenue of Rs. 289 million in first nine month of FY2017 to the top-line of the company.

The share of Dye Intermediates in total revenue stood a 59.8% during the first nine month of FY2017 compared to 49.9% during the same period last year. The share of Dyestuff stood at 24.7% compare to 37.1%.

Moving to our leverage profile, we are very comfortable with our current capital structure and of 31st December 2016, our total debt was Rs.1,140 million which includes Rs.7 million of long-term debt and Rs. 1,133 million of short-term debt. Cash and cash equivalents for the quarter was Rs. 234 million, which includes investment in liquid fund of Rs. 220 million, resulting in a net debt position Rs. 906 million. During the nine-month ended on December 2016, the company generated significant cash flows which was primarily utilized to repay the total debt by Rs. 289 million and part of it was invested in liquid fund was Rs. 220 million.

The net worth of the company was Rs. 3,269 million at the end of the quarter. Our net debt to equity has improved to 0.28x from 0.61x over the first nine months of the fiscal year. Net debt to last 12 months EBITDA has improved to 0.42x from 0.84x over the same period.

I wish to reinforce our continued commitment to financial discipline and shareholders' value creation in the times to come.

On that note, I would like to open up the floor for the Question-and-Answer Session.

- Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from Naushad Choudhary from Systematix Shares. Please go ahead.
- Naushad Choudhary:** A couple of questions, I have. Firstly, if you can give volume number of Q3 FY2017 and how it grew q-o-q and y-o-y basis?
- Mayur Padhya:** Yes, so far as quantity numbers are concerned, in Q3 corresponding to last year same quarter, it has increased by 7.85%. On q-o-q basis, it has reduced by about 12%. Because this quarter is normally considered weak quarter and we had to take shutdown for boiler expansion etc., for about one month for our Sulphuric Acid plant and H-Acid plants.
- Naushad Choudhary:** Okay. If you can specifically give a break-up of Dyestuff and Dye Intermediates?
- Mayur Padhya:** Yeah, for specific Dye Intermediates, Dyestuff, corresponding December 2015 to December 2016 in Dye Intermediates it has reduced by 12%, Dyestuff reduced by 15%; and Basic Chemicals increased by about 13%.
- Naushad Choudhary:** Okay. And the second question is, if you can help us understand the nature of the contract that you sign with the client nature in terms of the period of the contract and the price term?
- Mayur Padhya:** Normally in this industry majority raw material are related to crude, so raw material prices are fluctuating almost every month. So, we do not enter into contract which goes for more than a month except certain big customers to whom we give this opportunity. Otherwise it is a spot business and we do not enter into longer contracts.
- Naushad Choudhary:** Okay. And what are the pricing terms do we sign if there is a change in the price between the contract? Is there any space to pass on the price to clients or do we have to absorb all these assets?
- Mayur Padhya:** See, normally whatever contract we enter into that we need to fulfill within one month or so. So, if the fluctuation is not every abnormal normally there is no renegotiation. But if we entered for a longer period say for a three months and fluctuation is very abnormal then only then we consider it and renegotiate.
- Naushad Choudhary:** So, for big client we go for three-month contract and...
- Mayur Padhya:** Yes, there are two or three big customers for them sometime, it is not always but sometime if they insist we give them this opportunity.
- Naushad Choudhary:** And how much revenue that three clients contribute to our top-line?
- Mayur Padhya:** Hardly 10-12%.

- Naushad Choudhary:** And the trade terms in Dyestuff and Dye Intermediates business are same or is there any difference in trade terms?
- Mayur Padhya:** Yeah, see normally in Dyestuff particularly big customers MNC like Stahl which was earlier Clariant. They sometime do contract for specific quantum for a quarter. In that case, every month prices are renegotiated but quantum is fixed for the quarter.
- Naushad Choudhary:** You are talking about Dye Intermediates is that?
- Mayur Padhya:** Dyestuff. For Dye Intermediates generally such things do not happen it is spot buying and spot selling.
- Naushad Choudhary:** If somebody wants to track the Dye Intermediates prices, is there any platform or how to track the prices of Dye Intermediates?
- Mayur Padhya:** No, there is no such perform but for import and export rate you can have the idea on Zauba website.
- Naushad Choudhary:** Okay. And price changes on daily basis, right?
- Mayur Padhya:** Yes, it can happen.
- Naushad Choudhary:** Okay. And second last question, sir if you can help us understand how the realization of Dyestuff has moved up since we started division and what would be the current realization of Dyestuff?
- Mayur Padhya:** Dyestuff business is a kind of stable business in that business normally all the producer take Dye Intermediates price then add whatever is the process cost and add their margin and then they quote. So, more or less, it remains stable which is not the case for Dye Intermediates and Basic Chemicals. So, realization in Dyestuff remains more or less stable in last say 10 years 15 years whatever we have experienced.
- Naushad Choudhary:** And lastly sir, if I see your Dyestuff capacity, we have started this division in 2003, right?
- Mayur Padhya:** Yes, 2006 practically.
- Naushad Choudhary:** Okay. In last 10 years, we have reached to the capacity of 17,000 metric tonnes (MT) right now and now we are talking about additional 25,000 MT capacity in next three years to four years, if I am not wrong.
- Mayur Padhya:** Correct. 24,000 MT in three years to four years.
- Naushad Choudhary:** Okay. Just wanted to understand what gives you so much confidence on Dyestuff business that in three years to four years of adding a 24,000 MT of capacity. What gives you so much confidence on this business?

Ankit Patel: Yes, it is really important to understand the things in detail. See, we are the most integrated company in India. Presently, about 40% of Dye Intermediates we consume in out and produce Dyestuff and once we complete this expansion in three years to four years about 90% of Dye our Intermediates will be consumed in producing Dyestuff. So, the integration model which we have versioned that will be over. See, we have Basic Chemicals as well as Dye Intermediates and Dyestuff . So, we are kind of most competitive player and most of the facilities Basic Chemicals etc., are in the single complex. So, minimum logistic cost, there is big advantage of scheme etc., and we have grown very fast compared to other players. Other big players who are there in the industry since 25 years, 30 years and we have grown in this business in last 13 years. This is our strength. Because of demonetization, GST, and more particular GPCB norms which is becoming more stringent day-by-day. So, in that time for the small unorganized player it is difficult to maintain their share and in say last 4-5 years, earlier about 900 players were there and presently hardly 500 players or 550 players are there in unorganized sector. So, they are continuously diminishing and their share is going to the bigger players like Bodal Chemicals. This is another area. And third is there are two countries for Dye Intermediates, India and China but in Dyestuff there are several other countries like South Korea, Japan, Taiwan, Indonesia and some European countries. But for them also to be in the business and be competitive is becoming difficult because they need to import Dye Intermediates from India and China then they produce Dyestuff and then they globally distribute. So, their market share is also slowly and gradually diminishing and this Dyestuff demand is continuously increasing with the population growth as well as growth in the standard of living. So, these are three, four factors which gives us confidence and comfort that we will able to achieve and that is why we are going in for three phases and not in a single phase. So, once we reach to first phase then we will start phase then the third phase. I hope, I have answered your question.

Moderator: Next question is from Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

Sarvanan Vishwanathan: Two questions, in the opening commentary as well as the results presentation mention that this quarter better price realizations helped us to achieve the stated so given I presume that you are referring to Dye Intermediates price realizations.

Mayur Padhya: Yes.

Sarvanan Vishwanathan: So, can you just take us through what was the average sales of vinyl sulphone in Q3 and what is the scenario now?

Mayur Padhya: See, you are correct, we are referring to mainly Vinyl Sulphone Ester and for Vinyl Sulphone Ester for last quarter our average realization was Rs. 369 and after the close of this quarter prices has come down and it has reached to about Rs. 200 say about 15-20 days before but now it has once again improved new demand has started and at present is about Rs. 240 and it is still improving.

Moderator: Next question is from Jason Soans from Monarch Network Capital. Please go ahead.

- Jason Soans:** I just wanted to know during FY2015 and FY2016 Bodal generated free cash flows from operation of more than Rs. 300 crores and a majority of that used to repay your debts. So, just wanted to know how is the cash flows position in the current year and how are you planning to use it?
- Mayur Padhya:** See, current year figures are with you, net profit Rs. 96 crores; and if we add about Rs. 18 crores that comes to about Rs. 114 crores, so that is cash realization and even in current year we have deployed some of the funds in our upcoming project that is Trion Chemicals in our associate company and balance majority of the cash flows that we have still paying our long-term as well as short-term debt. See, three year before our total debt was more than Rs. 400 crores with the bank and which has come down to hardly Rs. 90 crores at present. At present we are not utilizing any rupee currency loan and only foreign currency loan we are utilizing that is LIBOR plus 1% or so. So, that cost hardly less than 3% and we have started investing into liquid fund. So, till the new project is announced, we are infusing the fund into liquid projects. So, in December end it was about Rs. 22 crores we have invested. So, whenever new project will be there then that fund will be diverted to that. Otherwise company is generating fund.
- Moderator:** Next question is from Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** My question was what is the sales in MT for the first nine months, in Dye Intermediates, Dyestuff and Basic Chemicals?
- Mayur Padhya:** Yeah, Dyestuff for current quarter is 2,863 MT.
- Srinath Sridhar:** Okay. And Intermediates?
- Mayur Padhya:** Intermediates it was about Rs. 4,720 MT and Basic Chemicals it was 40,284 MT.
- Srinath Sridhar:** Sir, so this Basic Chemicals is the chemicals that we are selling outside right?
- Mayur Padhya:** No, both things. About 45-50% we captively consume and balance we sale in the market.
- Srinath Sridhar:** Because, we made about Rs. 96 crores during the first nine months in Basic Chemicals about 10.7% of our total revenue. So, that is the Basic Chemicals that we have sold outside, right?
- Mayur Padhya:** Correct.
- Srinath Sridhar:** So, that number I would like to have.
- Mayur Padhya:** No, that sales number are not with me at present.
- Srinath Sridhar:** Okay. And would you expect the Dyestuff realizations like you said does not fluctuate much. So, what will be our average realizations of Dyestuff in rupees per tonne or rupees per kg?



- Mayur Padhya:** See, we have more than 100 products, so it is difficult to give any single number but it range from say Rs. 150 / kg to Rs. 600 / kg. And when I say it do not fluctuate the prices do fluctuate, the margin remains more or less stable whenever there is fluctuation in Dye Intermediates then proportionate fluctuation is there in Dyestuff also.
- Srinath Sridhar:** Okay, sir. And I would like to understand what exactly will we be doing in Trion Chemicals?
- Mayur Padhya:** Yeah, in Trion Chemicals we have started production of a Specialty Chemicals. It is chlorine based water treatment chemical and mainly it is for export market. There is big local market also. We are the first in India to start production of this chemical. But we are targeting mainly the U.S. as a market for this product. And the reason is that for this product another big manufacturer is China and Chinese product attract Anti-Dumping Duty when they export to the U.S.. The U.S. is a very big market with about 3 lakh MTPA consumption. In the U.S., to market such product it is required to have EPA license and we have already acquired that. We are going to start to export to the U.S. soon.
- Srinath Sridhar:** Okay. That is really good to hear and my other question was out of this 12,000 MT by say Q1 we start full swing production. What will be your utilization rate and what will be the EBITDA margin on this business?
- Mayur Padhya:** See, utilization initially will be lower
- Srinath Sridhar:** May be 50%.
- Mayur Padhya:** It is difficult to say at present to reach to optimum capacity it may require 2-3 years.
- Srinath Sridhar:** Okay. Two years to three years and at optimal capacity what will be the revenue that we will be earnings on this business?
- Mayur Padhya:** It is about Rs. 225 crores we are targeting and EBITDA margin will be also very good better than 20%. We are not claiming the number at present but it will be very good.
- Moderator:** We will move to next question which is from the line of Rohit Chopra from Sigma Street. Please go ahead.
- Rohit Chopra:** So, you mentioned that your volumes in this quarter has declined 12% q-o-q. So, this was what seasonal effect plus demonetization or was there something more deepen?
- Mayur Padhya:** Seasonal effect and see we need to take shutdown for this particular this quarter for Sulphuric Acid and at that time we took shutdown in Dye Intermediates also for certain maintenance and structural issue. So, that is why it was lower but it has started once again in January as well as February. So, we are now once again on the track.

- Rohit Chopra:** Okay. And just a sort of industry wide question, you mentioned that the margins in Dye Intermediates they fluctuate but the margins in Dyestuff remain the same.
- Mayur Padhya:** Yeah, that has historically happened.
- Rohit Chopra:** Yeah, but why are the margins in Dyestuff remain sort of largely steady is that because there is too much of supply which is keeping a capital on margins or what is the reason for that? Or is it like you are dealing with more sophisticated buyers and they are putting a cap on your margins?
- Mayur Padhya:** See specifically it is difficult to say. Since 15-16 years I am in this company and I have noted and even management's view is very clear that all players normally work in this fashion. They take Dye Intermediates plan then they add their operating cost as well as margin and then they quote.
- Rohit Chopra:** The only reason why I was asking was it appears that the players in the Dye Intermediates are currently enjoying richer margins then the people who are producing a more advance product the Dyestuff product.
- Mayur Padhya:** You are correct, but earlier before three years the scenario was different.
- Rohit Chopra:** Okay. And just one last question, this was also touched upon earlier. I mean do you worry that doing all this capacity expansion when margins might have already reached their peak and they are maybe starting to come down?
- Mayur Padhya:** See, the margins which we are enjoying, we are not claiming that it will continue for a very long period. Some portion of margin is abnormal and what we guide to our investor is that 15% plus, minus maybe 1% that is something going to sustain for a very long period because of our integration. But somehow since last three years we have been claiming this but still we could maintain better margins than that.
- Rohit Chopra:** These are EBITDA margins you are saying 15-16% EBITDA margin?
- Mayur Padhya:** Yes, EBITDA margin.
- Moderator:** Next question is a follow-up from the line of Naushad Choudhary from Systematix Shares. Please go ahead.
- Naushad Choudhary:** Sir, if you can the number of clients we have right now and how many new clients we have added in last two years?
- Mayur Padhya:** So, far as export data I do have, in export before two years it was about 300 clients and just before two months, three months we once again calculated it is more than 375 clients and so far as number of countries are concerned earlier it was about 35 countries but we have crossed more than 45 countries presently. Local data I do not have but it will be even bigger than that number.



- Naushad Choudhary:** And how much revenue from this additional 75 clients are we getting?
- Mayur Padhya:** No, that exercise we are not doing.
- Naushad Choudhary:** Qualitatively 10- 20% any rough figure?
- Mayur Padhya:** Rough figure, yes, definitely about 15% should be there whatever growth we are doing that is from new customers as well as existing customer.
- Naushad Choudhary:** Okay. And lastly, if you can help us understand this thing you said about 25,000 MT of Dyestuff capacity in next three years to four years, your 90% of DI consumption would be for Dyestuff only. Technically the revenue contribution from DI which right now have the highest realization would go down. So, there would not much increment on the top-line side but our revenue mix would change and the business would become more stable compare to current scenario am I correct in this point?
- Mayur Padhya:** In Dye Intermediates realization are better at present because of uncertainty with Chinese player. When they become a bit stable then the prices will become normal and that time our new capacity will become effective and at that time we will have better realization because of the integration. And one more thing I would like to add is that the Dyestuff which we are manufacturing, we are supplying to about 45 countries and it has been consumed more than 90 companies. So, there is big market yet to be reached by us that is very important.
- Naushad Choudhary:** Right now if my data is correct, the industry Dyestuff realization an average is about 2 lakh MT of Dyestuff realization is right now and whereas the DI realization is comparatively higher. So, should we assume on a long-term basis and ideally it should be DI realization should be lesser than the Dyestuff realization, right. Can we assume DI realization below 2 lakh per MT on a long-term basis?
- Mayur Padhya:** See, in figure it is difficult to say anything because majority raw material are linked with crude. So, if crude goes up then the realization figure will also change accordingly. But normally our margin remains more or less stable as we could pass on whatever increase is there in raw material prices. So, per kg realization prices are not that important for us.
- Moderator:** Next question is from Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** See, Vinyl Sulphone prices you had given us some average pricing for that despite that, so what is the kind of expectations of these prices going forward and what are our expectation of growth going forward in the next year?
- Mayur Padhya:** See, Vinyl Sulphone presently at about Rs. 240 per kg that itself is a very good number for us because year before it was traded at about Rs. 200 per kg or even below Rs. 200 per kg. And so far as growth is concerned, we are committed to about 20% to 30% growth for next 3-4 years.



- Pawan Kumar:** On the top-line sir?
- Mayur Padhya:** On the mainly bottom-line because top-line is a function of change in the raw material price so it may happen, may not happen.
- Pawan Kumar:** Okay. And just to understand presently how much of Vinyl Sulphone do we convert and how much do we directly sell into the market?
- Mayur Padhya:** About 40% of the production we consume in-house and balance we sell in the market.
- Moderator:** Next question is from Shresht Bothra from SMC Global Securities. Please go ahead.
- Shresht Bothra:** Sir, if you could point out on how the market is shaping up especially for LABSA for Liquid Dyestuff? And if you could also share the revenue figures for the nine month ended FY2017 and Q3 FY2017 because you pointed out in the previous con call that LABSA revenue was Rs. 24 crores in H1 FY2017 and for Liquid Dyestuff it was at Rs. 15 crores. So, if you could share the revenue figure and how is the market shaping up?
- Mayur Padhya:** See, for LABSA in nine months we have done Rs. 28 crores and present utilization of capacity is about 50% and this market particularly LABSA division affected by this demonetization and how it will be shaping up Ankit Bhai is giving his view.
- Ankit Patel:** The LABSA is mainly used to Detergent market and in unorganized sectors of the Detergent there used to be a lot of cash transactions. So, after the time of demonetization November was quite a bad month for LABSA manufacturers so, the sales had dropped down dramatically. But December and January we have noticed that things are moving back to track and the numbers have already come back to around 50-60% of what we did in the months of September and October. So, it seems that it is very likely that in a month or two month it will be back on track.
- Shresht Bothra:** All right. And sir, on the Liquid Dyestuff business?
- Ankit Patel:** See, in Liquid Dyestuff we are at around 30% capacity utilization, the reason being that there are very few producers of Liquid Dyestuff in India and the consumers are mainly very large MNC companies across the world. We already have a good contract with consumer in Australia. We are about to start with our consumer in Poland. We are also in talks with people in South Africa also in the U.S. So, I expect, a lot of talks with the buyers to convert into actual business this year and since, it is a very small component for them in the purchase and they are such large companies MNC so the entry process is quite lengthy but once we are through with the process, once we are approved as a vendor, it will be very easy and a smooth business and there the quantities are quite large, so the 30% consumption, capacity utilization can jump to easily 60-70% within if only a couple of those buyers potential buyers are converted and I see that happening within FY2018.

- Shresht Bothra:** Okay. And sir, if you could share the nine-month revenue figure for Liquid Dyestuff because I understand H1 revenue was Rs. 15 crores?
- Mayur Padhya:** Let me check on that. I do not have the exact number but it will be around Rs. 25 crores not more than that.
- Shresht Bothra:** Rs. 20 crores, Rs. 25 crores for nine months?
- Mayur Padhya:** Yes.
- Moderator:** Next question is from Kavita Thomas from First Global. Please go ahead.
- Kavita Thomas:** Sir, I just had few questions one was on the we just discussed about the Vinyl Sulphone prices, could you just give us also an understanding in terms of how H-Acid prices have panned out in the third quarter and how is it currently? And how is it vis-à-vis what it was in third quarter FY2016?
- Mayur Padhya:** See, H-Acid prices realization in the last quarter was about Rs. 350 crores and it has also move down in the January to about Rs. 300 crores but from there it is moving up and presently traded at about Rs. 335 crores and it is still improving and what else?
- Kavita Thomas:** Sir, and next, if we see the volume growth we motioned the volume growth in this quarter was 7.85% is that right, did I hear....
- Mayur Padhya:** Yes, that is in totality including all segment.
- Kavita Thomas:** Okay. So, that means that the 35% growth the remaining growth has been from price growth. So, which products or basically we talk volume of Dye Intermediates falling, Dyestuff falling so only Basic Chemicals.
- Mayur Padhya:** Basic Chemicals has increased.
- Kavita Thomas:** Yes. So, that has been the primary driver for the quarter in revenues?
- Mayur Padhya:** Growth in the revenue is mainly pricing.
- Kavita Thomas:** Pricing, okay, in Vinyl Sulphone and H-Acid on a y-o-y basis?
- Mayur Padhya:** Yes, in H-Acid there was not much effect but yes, in Vinyl Sulphone there was effect.
- Kavita Thomas:** Okay. And could you help me understand in terms of how the margins have been in this quarter, I mean the margins are far better than what it was in the previous quarter. So, what has changed over the last one month or how has the mix changed over if I talk on a sequential basis on account

of these segment improvement in margins are there in spite being a seasonal factors being there in the quarter.

Mayur Padhya: See, in the December quarter as we have mentioned there was incremental growth as far as Basic Chemicals is concerned otherwise there was no quantitative growth. But the realization mainly and H-Acid and Dye Intermediates particularly, H-Acid was very high and that has led to very good quarter for us which was otherwise not expected because being seasonally weak quarter but we could do better.

Kavita Thomas: Okay. And how do you see the outlook I mean, I understand, there are fluctuations in the prices but these prices as you mentioned are coming are going up now again. I mean, though it is not easy to give a picture for a long-term perspective at least in the near-term how do we see these prices? Do we see it remaining stable at current levels or how is it?

Mayur Padhya: At present it is improving, it should improve to somewhat extent further and then it may stabilize at that level.

Kavita Thomas: Okay. But why had the prices fallen I mean is it because suddenly because some players in China have restated operations or why is it fall, why is it picking up now?

Mayur Padhya: See, it is psychological effect. The biggest player of China that is Hubei Chuyuan that has started operation say from December end or so, so initially they could start only Dyestuff but then there were rumors that they have also started Dye Intermediates. So, that is why it was the psychological effect and recently we are listening they are on the verge of starting Dye Intermediates but not in a bigger capacity very small capacity say 10%, 15% or so. By the passage of time when their production is not coming in the market that is why the prices are picking you and even new demand has also started.

Kavita Thomas: And overall what is your outlook? I mean, though top-line could be quite volatile because of RM prices as you mentioned, could you give a ball park guidance because 20-30% is a wide range to provide a growth number on the profitability. So, do we still maintain this range or?

Mayur Padhya: To narrow down that range is difficult.

Kavita Thomas: Okay. Lastly, sir how is the Liquid Dyestuff I mean, we have mentioned that in this quarter overall, we have been able to generate revenues around Rs. 20 crores, Rs. 25 crores in the nine months and we are in discussions with very good consumers. So, what is our overall outlook at least from a one year perspective what kind of capacity utilizations are we expecting in this business?

Mayur Padhya: According to the reports which we get from the marketing people, the things which they are talking if get materialize then by FY2017 we can reach to about 50-60% capacity utilization and that is a good number for us compare to what we expect.

Kavita Thomas: Okay. And at peak capacity utilization level what are the kind of revenues that we are seeing in this business?

Mayur Padhya: It is about Rs. 100 crores.

Kavita Thomas: Rs. 100 crores, okay. And with margins sir?

Mayur Padhya: Margins more than 20%. In the range of 20-25%.

Kavita Thomas: Okay. And these peak capacity levels we expect to achieve what in the next two year to three years?

Mayur Padhya: Yes.

Moderator: Next question is from Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar: Sir, I just wanted to understand, since we have started our first batch has been produced in the Specialty Chemicals which we are producing, what is our outlook for revenues, what is the kind of utilization we are expecting in the first year and what kind of revenues can we see?

Mayur Padhya: Revenue at the peak utilization we are targeting about Rs. 225 crores and here also, it will take time to reach that level it will be about two years to three years. But the things will be clear once may be in the first quarter of next year because this is the first project in India and for us also it is a new technology. But we are very happy that the successful quality which is required that we have already obtained.

Pawan Kumar: Okay. And what can be the EBITDA in range of?

Mayur Padhya: It is far better than 20% but we are not claiming at present or not giving any fixed number.

Pawan Kumar: Fine, sir. But at least can you tell us the kind of utilization you might do in the first year?

Mayur Padhya: First year we are hopeful to reach at least 40%.

Pawan Kumar: Okay, that is great.

Moderator: Next question is from Suvarna Joshi from SMC Global. Please go ahead.

Suvarna Joshi: Sir, you mentioned in your presentation that we have seen a good increase in domestic demand as well. So, could you just help us understand where is this demand coming from in the domestic market? That is one. And second is, if you could help us understand how is the export market growing and also the domestic market growing? I mean, what percentage are we growing in both these geographies?

Mayur Padhya: Yes. See, so far as domestic demand what we are talking about that is in Dyestuff and it is even our strategic move to give much focus to even domestic market because earlier we were mainly focusing on export market. But since now, we are increasing our capacity in Dyestuff, we want to grab this opportunity and want to improve our market share in local also and that is what reflected in the numbers.

Suvarna Joshi: So, which industries would have contributed into this rise in demand, largely would be the textile industry if I understand if I understand that correctly.

Mayur Padhya: Yeah, textile.

Suvarna Joshi: So, the entire demand in domestic is driven by textile?

Mayur Padhya: See, rather we should put it in a different word that we are selling more into domestic market.

Suvarna Joshi: All right. Sir, can you just help us understand, how are the export markets growing for us I mean percentage wise both exports and domestic if you can give us a y-o-y comparison?

Mayur Padhya: See, earlier, before two years our export was about 40% which has come down to about 30%, 35%. In last quarter it was 35% and in Q2 FY2017 it was 30%. So, particularly in last quarter there were some issues in India because of demonetization, etc., so we could shift our focus from local to export and that is why it is more. But once we convert ourself more into Dyestuff at that time export will once again improve.

Moderator: Thank you. Ladies and gentlemen, that was the last questions, I now hand the conference call over to Mr. Padhya for closing comments. Over to you.

Mayur Padhya: Thank you very much everyone joining this earnings conference call. In case, any of your questions remains unanswered, I request you to please send it across to us and thanks once again.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Bodal Chemicals, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability

Mayur Padhya
Bodal Chemicals

mayur@bodal.com
+91 79 2583 5437

Bijay Sharma / Ajay Tambhale
Churchgate Partners

Bodal@churchgatepartners.com
+91 22 6169 5988

Cautionary Statement: This document contains statements that contain “forward looking statements” including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to Bodal Chemicals’ future business developments and economic performance. While these forward looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance. Bodal Chemicals undertakes no obligation to publicly revise any forward looking statements to reflect future / likely events or circumstances.