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Bodal Chemicals Limited

Q4 and Full Year FY2017 Earnings Conference Call

May 26, 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 Q4 and Full Year FY2017 Earnings Conference Call. Joining us today on this call are, Mr. Ankit Patel – Executive Director and Mr. Mayur Padhya – Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation.

I would now like to hand the call over to Mr. Ankit Patel. Thank you and over to you, sir.

Ankit Patel: Hello, everyone. Welcome, Ladies and Gentlemen. And thank you for joining the Quarter Four and Full Year FY2017 Earnings Conference Call of Bodal Chemicals. I also have with me on the call Mr. Mayur Padhya, the 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's 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 all the basic chemicals output in-house in the manufacturing of Dye Intermediates. Also, approximately 40% of our Dye Intermediate 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 the full year, we are pleased to report a strong operational performance with significant improvement in profitability during FY2017. This robust growth was driven by better price realization in certain Dye Intermediates products, coupled with increase in domestic demand and better product mix.

As you may be aware, we have started various business initiatives for product diversification and capacity expansion during last few quarters. First, the specialty chemical that is produced by our 42% owned associate company Trion Chemicals. This business is performing well and we have started exporting to the US. Our product also received approvals from end consumers in the US and we expect this to drive future growth for this product. We anticipate this product to achieve operational breakeven by Q1 FY2018. One of the promoter and director of Trion Chemicals has recently moved to the US for the purpose of marketing the product in the US and Europe.

The second product is Liquid Dyestuff, which is primarily used in paper industry for coloring the paper. We are one of the very few companies engaged in the production of this chemical.

Demand outlook for Liquid Dyestuff is very positive and we are receiving significant interest from customers. Currently, we are focused on marketing this product in the European countries and with this objective we have already established a dedicated marketing team in the region. Based on our demand existing order book and customer enquiry, we expect this product to make meaningful contribution from H2 FY2018.

Our proposed Dyestuff capacity expansion plan is progressing as per schedule. We expect the expansion to be completed and start commercial production by Q1 FY2018. In the first phase, we expect to increase the capacity by 8,000 MTPA, taking the total Dyestuff capacity to 25,000 MTPA. Capacity would be further expanded by another 16,000 MTPA over the following three years.

We would also like to highlight that during the last quarter of FY2017 we have successfully acquired 70% stake in Dye Intermediates manufacturer called SPS Processors Private Limited. This acquisition is in the line of our strategy to consolidate Bodal Chemical's position in local and global markets of Dyestuff and Dye Intermediates. SPS Processors is an Uttar Pradesh-based manufacturing plant and it is a Dye Intermediate manufacturer. It is a zero-discharge unit, which is fully compliant with environmental regulations. At present, it has 250 MT per month operational capacity to manufacture H-acid, a key Dye Intermediate. We would also like to mention that SPS has all necessary permissions in place and has plans to invest Rs. 10 crores for setting up 350 MT per month vinyl sulfone plant, which is again another key Dye Intermediate and one of our main products.

As part of the deal, Bodal Chemicals has provided unsecured loan of about Rs. 45 crores to SPS Processors to make it a debt free company by retiring its existing total debt and also for expansion of its manufacturing capacity of vinyl sulfone plant.

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

Mayur Padhya:

Thank you, Ankit. Good afternoon, everyone. And thank you for being with us today. In terms of financial performance, it has been a very good year for Bodal Chemicals. Total consolidated income from operation increased by 35.9% YoY to Rs.12,363 million supported by better price realization for certain dye intermediate products, coupled with improvement in demand in the domestic market and better product mix. EBITDA expanded by robust 40.9% YoY to Rs. 2,375 million and margins stood at 19.2%, which is an improvement of around 70 basis points higher compared to the last fiscal year. Net profit grew by 49.5% YoY to Rs. 1,286 million and margins stood at 10.4%, an improvement of around 95 basis points higher compared to the same period last year.

Profitability for the full year was benefitted from better operational efficiency, reduction in finance cost further added the margin. The share of Dye Intermediates in our total revenue stood



at 61.4% during FY2017 compared to 51.7% during the last year. The share of dye stuff stood at 23.6% compared to 34.5%.

Moving to our leverage profile, we are very comfortable with our current capital structure. As of 31st March 2017, our total debt was Rs. 1,509 million, which includes Rs. 79 million of long-term debt which is mainly or rather totally by our associate company SPS Processors. And there is a short-term debt of Rs. 1,411 million and current portion of long-term borrowing of Rs. 19 million. Cash and cash equivalents for the year was Rs. 145 million, resulting in a net debt position of Rs. 1,364 million. The net worth of the company was Rs. 3,593 million at the end of the year. Our net debt to equity has improved to 0.38x from 0.61x at the end of March 2016. Net debt to LTM EBITDA has improved to 0.59x from 0.84x at the end of previous year. I wish to reinforce our continued commitment to financial discipline and shareholder value creation in the times to come.

On that note I would like to open the floor for interactive question-and-answer session.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

Anand Bhavnani: Sir, can you help us understand about Trion's status at the moment? So we probably started production in Q4 and we started marketing. So how much of the revenue contribution in Q4 and FY2017 did come from Trion and what is the potential for FY2018?

Mayur Padhya: See, last quarter we have just started the operating production, we can consider the test of production and there was no contribution, rather negligible in the last quarter. But in current quarter production is being stabilized. And as mentioned earlier, we have started exporting and quality has already been approved by our final customer at USA. So, we are very much satisfied in that front and slowly and gradually we are improving the production over there. But this being a first plant in India and a new technology, we are not anticipating much in first half, but from next half it will definitely give a meaningful contribution in profit as well as turnover.

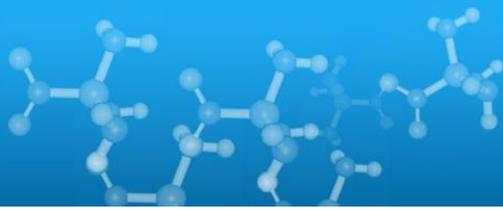
Anand Bhavnani: So sir, in your consolidated numbers the revenue is higher by about ~ Rs. 55 crores, so this is from which entity?

Mayur Padhya: It is from SPS Processors Private Limited.

Anand Bhavnani: So from there 250 MT per month H-acid numbers?

Mayur Padhya: Yes.

Anand Bhavnani: And sir, at what utilization SPS would be operating for H-acid?



- Mayur Padhya:** See, last year their total turnover was about Rs. 80 crores, but out of that whatever they have sold to us that we have to remove in the company transaction. So, after that the total revenue from that was about Rs. 55 crores and utilization is at about 60-70%.
- Anand Bhavnani:** And sir the second question is about our guidance for FY2018 and FY2019, so how do you see the top-line and which particular segments will contribute for incremental revenue?
- Mayur Padhya:** See, FY2017 was a very good year compared to earlier years. The growth which we have seen in this year may not be possible to have same growth rate next year but growth will definitely be there. SPS Processors has already started working and we are targeting to start even vinyl sulfone plant from next quarter. So, specific number to give is difficult but on around about 15-25% growth should be there, in a range I can say.
- Moderator:** Thank you. Our next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Sir, just wanted to understand in the last quarter what will be your product mix in terms of Dye Intermediary, Dyestuff and the basic chemicals as compared to the previous quarter?
- Mayur Padhya:** There has been a slight improvement in basic chemical, about 7%. As far as dye intermediate and dye stuff, both were almost same level, I am talking about March 2016 and March 2017.
- Jatin Damania:** Sir, I was talking like your total revenue of ~Rs. 290 crores in Q4, if you can give us the breakup what will be the contribution of Dye Intermediates, Dye Stuffs and the basic chemicals?
- Mayur Padhya:** That number basically I do not have at present, but that is more or less same which was there in earlier three quarters, there has not been any significant movement in any division.
- Jatin Damania:** And how was the price movement of vinyl sulfone and H-acid in Q4 and how are the pricing trending currently?
- Mayur Padhya:** See, in Q4 FY2017 our average price realization in H-acid was about Rs.325 and presently also it is prevailing at the same rate. And as far as vinyl sulfone is concerned, last quarter's average price realization was about Rs.255 and presently it is prevailing at about Rs.225.
- Jatin Damania:** Okay, so there is actually a decline in the realization?
- Ankit Patel:** Yes, nominal decline is there.
- Jatin Damania:** And sir, how do we see going forward?
- Mayur Padhya:** See, there has been a fluctuation. After three four months we have been listening some news from China and there has been a spike and that has now been a continuous thing. It is difficult to

say exactly what will happen, but this is a good level, it should remain around this level. It can improve if there is some issue.

Jatin Damania: Why I am asking is because the decline in the realization of vinyl sulfone, probably of the chemical, was largely due to the UI chemical plant started in China, so how are they operating it, are they operating at a full capacity or is there any problem again do we see in the operation of UI chemicals?

Ankit Patel: See, that time it had started working, but so far as intermediate production is concerned, they are facing some difficulties. So that production is on and off but we can say that they could not stabilize and it is out of question that they are utilizing full capacity, they are utilizing some negligible capacity and that is for their captive consumption.

Moderator: Thank you. Our next question is from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.

Saravanan Vishwanathan: Sir, about vinyl sulfone capacity of SPS Processors, you had mentioned that 350 MT per month will come on-stream from Q2, are we on track?

Mayur Padhya: Yes, we are on track. Process is going on and we are confidently starting in next quarter.

Saravanan Vishwanathan: So in FY2017, 62% of our business came from die intermediates and 24% from dyestuff and now you are progressively expanding the capacity of dyestuff also. So, what I would like to know is, how do you decide, like how much of dyestuff has to be manufacturing, if you have some long-term contract with your customer then you may have to serve that and produce dyestuff and supply to them. So, in the intervening period if Dye Intermediates prices go up, will you continue to convert it into dyestuff and sell it to the customers or you will make a calculation, whether it is better to sell it as dyestuff or convert into dyestuff and sell? So how do you take this call, because Dye Intermediates prices, as you have been saying, have been quite volatile, so how will you handle that transition?

Mayur Padhya: See, sir, one thing I would like to bring to your notice that we are not taking much of long-term contract, out of the total production there can be hardly 20- 30% of contract and which is mainly to the MNC like BSF or something like that, for them we commit sometime quantity for a quarter or so. So we work on month-to-month basis and we always have liberty to do the calculation and what to produce more and what to compromise, and we continuously monitor that.

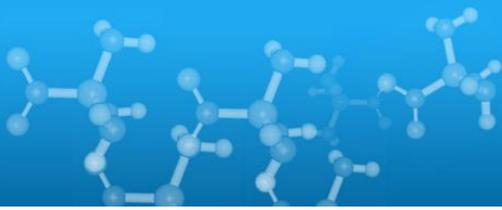
Saravanan Vishwanathan: Okay. So, if you have dyestuff capacity, you are moving from 25,000 to 42,000 MTPA and then if you create such capacity and you are not able to have a long-term contract or long-term relationships and if you start switching between Dye Intermediates and Dyestuff then would not there be any doubts from the customer end whether you are a reliable long-term supplier?

Ankit Patel: No, there is not that issue. See, we have a capacity of 17,000 MT and whatever we do that is hardly 5% to 10% or so. So, whomsoever are our regular customers we are serving them regularly. So that question is not there. And we have a wide customer base spread across more than 50 countries and 375 customers, so that is not an issue.

Saravanan Vishwanathan: So, even if you increase your Dyestuff capacity, in future if Dye Intermediate prices go up you will still have the flexibility to sell it as Dye Intermediates and make that extra margin?

Ankit Patel: Let me also try to give some input from my end. See, this quarterly or a long-term contract system is not there anymore in the Dyestuff. It used to be there earlier but the problem that has happened in China, because of that the overall supply-demand parameters have changed. Also, for the Dye Intermediates and Dyestuffs the basic raw material, most of it is crude linked and crude being very volatile, it is not really possible for any player to commit for even more than two or three months. So that is now the trend and the culture and the buying pattern. So that is not a routine practice so we do not have to worry about that. Earlier it used to be that because there were less players and less buyers also, not a lot of exposure was there from India. But now it has become quite a routine practice as people do not prefer any long-term work. Same thing is applicable to the buyers also.

As far as the intermediates and Dyestuff linkage goes within our organization, the best part about our integration is that we have large capacities in both, in fact we have larger capacities of intermediates. Being the largest intermediate player of India, we only consume about 40% of our intermediates to make the dyestuff. And Dyestuff markets are much, much bigger, annual production and demand would be even more than 10 lakh MT globally. So those targets are very much bigger, what we are doing right now those numbers are very small, there are even couple of players who are bigger than us in India in Dyestuff. So I think that doubling the capacity of Dyestuff over next 2-3 years and selling that product in market will not be a difficult task for us. And we have been around since more than ten years now in Dyestuff, we are also establishing a good brand globally and as well as in India domestically, so adding another 20,000 - 30,000 MT marketing of Dyestuff will not be a very difficult task for us. And that also gives us a good balancing factor for our intermediates, because intermediate prices go high, since last two or three years there have been lot of price fluctuations in intermediates. But even though the prices go higher when the prices increase it does not really mean that we can sell all our material in one day. So if I take the prices are Rs.225, let's say if that goes to Rs.300 in one month's time, that does not mean that the following month on the 1st only I will be able to sell all my monthly production in one day or two. So, at such times it gives us this balancing factor where we can convert all that and sell it as Dyestuff also, which not all the intermediate players have that liberty. And also, they do not have the market share in Dyestuff like we do, even some of the intermediate players are there who have some small Dyestuff capacities, but our dyestuff is also in large capacities and large presence globally. So it gives us a very good room to convert that 200 tons or 400 tons per month h-acid will convert into additional Dyestuff and sell that easily. So, I think that really works for us, that has already been happening within our system and I think that is a very, very strong point as far as our whole strategy goes. And that is one of the



reasons why we want to add more Dyestuff because there is lot more room and we feel that even doubling our capacity in Dyestuff will not really matter much and will not really give us a hard time to compete or sell it in the market.

Saravanan Vishwanathan: Very useful, thanks for the input. Second question on liquid dyestuff, in FY2017 was there any revenue from liquid dyestuff business?

Mayur Padhya: Yes, liquid dyestuff revenue was there but not more than I think Rs. 25 crores. So, it is still taking time to stabilize as expected.

Saravanan Vishwanathan: It is a 12,000 MT capacity right, liquid dyestuff?

Mayur Padhya: It is a 10,800 MTPA capacity.

Saravanan Vishwanathan: So, in FY2017 what was the utilization?

Mayur Padhya: Exact number I do not have, but not more than 20- 25%.

Saravanan Vishwanathan: What is expected utilization in FY2018?

Mayur Padhya: We are targeting to increase it up to 35-40% at least.

Moderator: Thank you. Our next question is from the line of Neeraj Dave from Samvad Financial. Please go ahead.

Neeraj Dave: First question is, what is kind of CAPEX you would be looking at now. I am looking at more as a long-term kind of CAPEX for growth and not talking of working capital.

Mayur Padhya: So far as CAPEX is concerned, we have two CAPEX are going on. One is Dyestuff expansion from 17,000 MTPA to 25,000 MTPA. Another, in SPS Processors we are building...

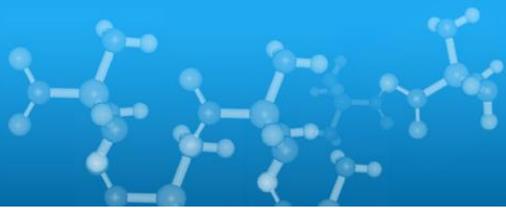
Neeraj Dave: And what would be the amount, sir?

Mayur Padhya: Estimate was about Rs. 28 crores for that expansion and for vinyl sulfone we are building additional capacity in SPS Processors that will be at about Rs. 10 crores.

Neeraj Dave: And broadly this would be financed from internal accruals we would be looking at?

Mayur Padhya: Yes, from internal accruals. Further, once the production stabilize in Trion we are also considering to expand the capacity by 50%. But that we have not yet started that and considering to expand the capacity may be in one or two quarter.

Neeraj Dave: Secondly sir, if I may ask, in FY2017 what would be H-acid and vinyl sulfone's share as a percentage of total Bodal Chemicals? Because if we look at peers we find significant growth in



their numbers and predominantly they are in H-acid and vinyl sulfone, as compared to with Bodal, I am not saying our numbers are bad but I understand probably we are much better diversified basket. So in that context I am asking what basically would be kind of share of sales of H-acid and V-sulfone in Bodal?

Mayur Padhya: See, numbers I do not have but it will be around 40- 45% of the total sales.

Moderator: Thank you. Our next question is from the line of Bino Pathiparampil from SBI Cap Securities. Please go ahead.

Bino Pathiparampil: Just one question on Dyestuff, if I look at the Dyestuff revenues it has not grown in FY2017, probably it has marginally come down. What is happening there and what is the outlook, I thought we are more focusing on that area?

Mayur Padhya: See, as far as long-term is concerned, once again we reiterate that we are focusing more on Dyestuff because that is a stable business, margins are also stable and there is a huge market still available to tap. So far last year is concerned, there is a slight de-growth in Dyestuff because in Dye Intermediates realizations were better, so our focus was that also. As we were discussing earlier question with Mr. Sarvanan that whenever we have an opportunity to do better margins to earn better profit by doing some product mix changes that we do, and that is the reason, otherwise there is nothing else.

Bino Pathiparampil: So, next year as intermediate growth gets normalized this growth should pick up?

Ankit Patel: Yes.

Moderator: Thank you. Our next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

Anand Bhavnani: My question is more on the line of our strategy, so we have a lot of consolidation potential in the industry with GST coming in and with environmental standards being further tightened in India, like there was a news article in Gujarat that only in Dahej you can do certain Dye Intermediates if you want to expand. Do you see yourselves doing more M&As like you did with SPS Processors in order to grow?

Mayur Padhya: See, your observation is very much correct. We are the biggest producer of dye intermediates in India as well as in Gujarat, and most of that production is happening in Gujarat. And because of this new notification now no new permission will be granted for Dye Intermediates in Gujarat except Dahej. So, for Bodal like company it is a very good news that no new competition is possible, except Dahej. And in such a time when we acquired SPS Processors with ready capacity of 250 MT of H-acid and there is a potential to produce 350 MT vinyl sulfone which we will start from next quarter, it is very good for the company. And our move has proven to be correct.

- Anand Bhavnani:** And in the consideration for the management to explore more such opportunity, would that be the right way to think of management strategy or this was one-off SPS Processors?
- Mayur Padhya:** No, we are open for such an opportunity. Mainly we need to look at whatever permission that the units are having. So it is the important criteria to decide on acquisition.
- Anand Bhavnani:** And sir, in terms of decrease in price of H-acid and vinyl sulfone in FY2017, was it largely driven by the fall in price of raw material like aniline or sulfur and ethylene oxide or was it due to competition?
- Mayur Padhya:** See, the prices which have regularized that was a bit higher compared to earlier years. See, if you see before 1.5 years vinyl sulfone prices were even below Rs. 200 and that has moved up to Rs. 400 and it has stabilized to some extent. So, there is not much related with the raw material prices but it is related with Chinese issue.
- Anand Bhavnani:** Sir, if you can just help us understand the volume versus the value contribution to our growth. So, we grew by 35% top-line, how much would be the volume contribution ballpark and how much would be the value growth or value de-growth?
- Mayur Padhya:** See, volume growth was about 8% and the balance was price growth.
- Anand Bhavnani:** Okay, so we had a price growth of ballpark 27%, am I right?
- Mayur Padhya:** Yes.
- Moderator:** Thank you. Our next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** My first question would be on the EBITDA margins going forward. Since this year was a much better year, is this rate sustainable or what rate would you guide?
- Mayur Padhya:** See, since last three years we have been guiding about 15-16% minimum EBITDA that is sustainable but somehow, we could manage to earn 18% to 20% EBITDA, so that is there.
- Srinath Sridhar:** So, 15-16% would be the conservative but...?
- Mayur Padhya:** Yes, that is their minimum conservative number.
- Srinath Sridhar:** And sir, in the SPS this year I see that even though we have had a Rs. 55 crores turnover, on the bottom-line there is nothing which has come?
- Mayur Padhya:** See, there are two reasons. Company was having a heavy debt burden.
- Srinath Sridhar:** How much debt burden, sir?

Mayur Padhya: We were having bank debt as well as other debt of about Rs. 30 crores. So, interest was heavily there. Another thing was they are producing only H-acid and whenever you produce only H-acid that is not much beneficial thing. And when you add vinyl sulfone with that, it gives very good efficiency. And Ankit would like to add something here.

Ankit Patel: The difference is that when an H-acid plant performs independently, there were some effluents that need to be treated to make it a good discharge plant. But with addition of vinyl sulfone in the same premises, those effluents can be used in the vinyl sulfone plant as our raw material. That is one of the key reasons and it is vis-à-vis situation, there is another effluent in the vinyl sulfone plant that can be used in H-acid as a raw material. So, it works as a best combination and it reduces cost on both the products. So that is how our existing setup is, there are very few companies in India which have the same setup. There may be many multiple plants, more than ten times of our products, but there are hardly few companies that have the same setup which has the most cost advantage. So that is why that was one of the reasons where they had that permission for it and with a small investment we can put up a vinyl sulfone plant as well. So that was one of the key reasons we acquired that and now we are in the process of putting up the vinyl sulfone plant. So I think the economy of that plant will change dramatically once vinyl sulfone plant starts.

Srinath Sridhar: Okay. So we can assume a total top-line of Rs. 110 crores this year?

Ankit Patel: Yes.

Srinath Sridhar: So, our share will be close to Rs. 75 crores or something?

Ankit Patel: Yes, a 70% stake, yes.

Srinath Sridhar: And in this also we can clock margins of 15%?

Ankit Patel: Yes, it should be around that only our routine margin levels. And also another reason was, they are the promoters of SPS, for them it was a first chemical manufacturing kind of an activity, their history is into textiles and they are experts into textile manufacturing and marketing. So for them this is a very new, totally new area of work, so they were not able to do it perfectly. And now with our expertise we come in so we make all the required things, our purchase size has already come down and their purchase were much higher and our sourcing has improved our sourcing from Gujarat, so that all are our expertise. So with all that our raw material costing should also go down which already has started happening. So we should be able to bring that unit also in the same margins, double as Bodal's normal margin levels.

Srinath Sridhar: And sir, overall consolidated debt, how much will we bring it down this year given your robust cash flow from operations?

Mayur Padhya: See, that depends on what we do as far as new CAPEX is concerned. There are certain things which are there at the brainstorming stage, we are considering but we could not finalize yet, once

we finalize we will go for that. So, if we implement that in current year we may not be able to reduce much of the debt, otherwise there will be significant debt reduction.

Srinath Sridhar: If you all go through with all your expansions?

Mayur Padhya: Yes. If we start some expansion which is there in our mind then further reduction of debt may not be possible. Because see we are not much focusing to reduce debt further, because whatever we are utilizing that is packing credit in foreign currency terms and that cost was hardly 2.5% to 3% and it is not wise to pay off that debt.

Srinath Sridhar: And one last question is on Trion Chemicals, how much do we expect this year's top-line as far as top-line goes?

Mayur Padhya: See, as far as top-line goes, we are estimating about Rs. 60-80 crores turnover should be there, we are targeting that.

Moderator: Thank you. Our next question is from the line of Amod Joshi from SPA Securities. Please go ahead.

Amod Joshi: Sir, I wanted to know the realizations what we are getting for TCCA, which is we are making via Trion Chemicals, liquid dyestuff and LABSA?

Mayur Padhya: TCCA we are mainly exporting and it is a \$2 per kg.

Amod Joshi: Mostly export is to US, right?

Mayur Padhya: Yes.

Amod Joshi: In liquid dyestuff?

Mayur Padhya: Liquid dyestuff, we are exporting to South Africa as well as Australia and the prices are around \$1.5 per kg. And LABSA is moving around Rs.65 per kg.

Amod Joshi: Is this LABSA focused on export market as well, sir?

Mayur Padhya: No. See, LABSA is kind of a balancing factor, it is not that a new product stream which we are developing, it is mainly to utilize our weak acid and make some value additions there.

Amod Joshi: Okay. Sir, as I can see the proportion of domestic market in the overall revenue has increased significantly from 66% to 71.5% in FY2016 to FY2017. So, with increasing exports through this TCCA, Liquid Dyestuff and LABSA, what is the percentage of exports we could get in FY2018 and FY2019?

- Mayur Padhya:** See, FY2018 and FY2019, this should improve to some extent, at the same time we are improving, rather building additional capacity for dyestuff. That is why we are focusing more on domestic front also for Dyestuff. So, that can be both effect.
- Amod Joshi:** And sir, just last question, what is the expected CAPEX for FY2018 and FY2019, sir if you could give some ballpark number?
- Mayur Padhya:** See, normally Rs. 20-30 crores of CAPEX is there for maintenance, etc. And balance, as I mentioned earlier, Rs. 28 crores we have for Dyestuff expansion, Rs. 10 crores for the SPS and if you built additional 50% capacity in Trion, that can be of up to Rs. 20 crores, but in that our share may be Rs. 5-10 crores only. Even there are some other projects which we are seriously considering, but we have not yet finalized. So it is difficult to say the numbers for this year's CAPEX.
- Moderator:** Thank you. Our next question is from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.
- Saravanan Vishwanathan:** Sir, you had given a broad guidance of 15-25% top-line growth for FY18, so how much of it would be lead by volume?
- Mayur Padhya:** See, volume will be there because the new SPS Processors will start functioning H-acid they are already producing, vinyl sulfone they will start producing from next quarter, volume growth will be there from Trion also and some small volume growth will be in liquid dyestuff also. So, overall we can say 8-10% volume growth can be there and balance we are considering at present price.
- Saravanan Vishwanathan:** What will be the tax rate guidance for FY2018?
- Mayur Padhya:** Tax rate may be 1-2% less, otherwise it is full tax.
- Saravanan Vishwanathan:** And in terms of debt you had mentioned debt will not, I mean will there be an increase in debt?
- Mayur Padhya:** No, we are not increasing any debt, whatever expansion we are considering that will be from internal accrual only.
- Saravanan Vishwanathan:** Working capital there may not be any need, working capital debt?
- Mayur Padhya:** Working capital debt may not be required, it will remain more or less in the same range, further additional may not be required.
- Saravanan Vishwanathan:** You are saying top-line growth would ~ 20%, So EBITDA will also grow by 20% because of the reduction in realization or something like that, is there a chance of growth in EBITDA could be less than growth in top-line?

Mayur Padhya: See, considering the present circumstances whatever turnover growth is there that will be there even in EBITDA also.

Moderator: Thank you. Our next question is from the line of Hardik Bhora from Union Mutual Fund. Please go ahead.

Hardik Bhora: Just wanted an update on the situation from the Dyestuff manufacturing industry in China and Dye Intermediates manufacturing industry in China. How is the capacity utilization there, has it come back on stream, your sense on how are they competing once they are back if they are back?

Mayur Padhya: See, in China they are the biggest producer of Dye Intermediate as well as dyestuff. Presently also most of the capacity also are there working. Let's segregate both Dye Intermediate and Dyestuff. In dyestuff, they are producing and there are a bit lesser issue of pollution. And whenever they produce dyestuff that is majorly for their domestic demand, even their tax structure is like that when they export dyestuff they need to pay tax. So they are not encouraging dyestuff export, particularly the dyestuff which we produce, reactive acid and direct Dyestuff. So in Dyestuff they are not in competition with Indian players. But yes, in Dye Intermediates they are in competition with Indian players and in Dye Intermediate. See, earlier they were discharging the pollution into a river or an open drain, but now because of the regulation and the strict observance of the regulation, they need to obtain first permission from the body of government and then they can do the production. So that is why they are struggling at that area, but it is not like that they are closed or majority of units are closed. Yes, they are not able to utilize their full capacity, they are struggling to achieve that capacity, otherwise they are already working.

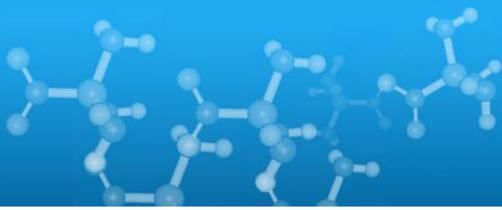
Hardik Bhora: So, with which one coming back what is the pricing like, are they competing, what I am trying to understand is has the competition become more rational?

Mayur Padhya: See, as I mentioned, which one has started Dyestuff production about six months before and Dye Intermediate also they have started say about three months or so. But they are struggling to achieve additional capacity of Dye Intermediates and they are not able to achieve the full production capacity. And whatever they produce that is for their captive consumption to produce Dyestuff. So, whatever they produce they are not in competition with Indian players, we can say like that.

Hardik Bhora: Second question is, how are you hedging your fund currency exposure?

Mayur Padhya: See, we have a very clear policy, not to keep any foreign currency open. Whatever PCFC we use, that is self-hedging, so we raise the dollar loan and that has been set off by whenever our customer pays the dollar. And so far as import is concerned, we knock off that bit of our export. So it is very clear policy since last about five years we are not keeping any single dollar open, whenever there is an order of import or export we immediately book it.

- Hardik Bhora:** Just final question, if you could just clarify, I missed this probably, what was the contribution of SPS to our consolidated profit and loss statement this year?
- Mayur Padhya:** Contribution in terms of revenue?
- Hardik Bhora:** Yes.
- Mayur Padhya:** It was Rs. 55 crores after knocking off the transaction with Bodal Chemicals. Earlier standalone their contribution was about Rs. 80 crores. And so far, as bottom-line is concerned, that is negligible.
- Moderator:** Thank you. Our next question is from the line of Kavita Tomas from First Global. Please go ahead.
- Kavita Tomas:** Sir, could you just give us an idea in terms of what has been the volume growth for the dyes and the Dye Intermediates in FY2017 as compared to FY2016?
- Mayur Padhya:** Dye Intermediate, there was hardly 2% growth there and in dyestuff it was almost 0. And in basic chemical it was about 8% growth there.
- Kavita Tomas:** 8% volume growth?
- Mayur Padhya:** yes, volume growth I am talking about.
- Kavita Tomas:** And what the price realization?
- Mayur Padhya:** See, price realization is almost matching with earlier Dyestuff as well as basic chemicals. In Dye Intermediate, because some of the dye intermediate realization has improved significantly in last year, that was there.
- Kavita Tomas:** And the contribution from SPS, as you mentioned it is around Rs. 55 crores for this year.
- Mayur Padhya:** Correct, in terms of revenues.
- Kavita Tomas:** Yes, the consolidated revenues. So, this includes how many months of sales at the consolidation?
- Mayur Padhya:** See, they were working for the full whole year, they started production in August 2015. So the Rs. 80 crores was their full year number and after reducing inter-company transaction net revenue was Rs. 55 crores.
- Kavita Tomas:** And sir, bottom-line as you said, I mean, was it a loss making or since because as we said they had huge debt.
- Mayur Padhya:** Yes, there was a profit but hardly Rs. 5 lakhs to Rs. 10 lakhs or something like that.



- Kavita Tomas:** And so, 70% of whatever they report will be shown into our accounts?
- Mayur Padhya:** Yes.
- Moderator:** Thank you. Our next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** As far as in metric tons what is the utilization of Dyestuff?
- Mayur Padhya:** Dyestuff utilization is around 75% and same is in intermediates.
- Moderator:** Thank you. Our next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.
- Anand Bhavnani:** Sir, in dyestuff you mentioned that price realization has been weak and hence we have focused on Dye Intermediates, now there have been announcements by other Indian players to expand their Dyestuff capacity and even we are expanding the Dyestuff capacity. So, do you see a situation whereby over next two, three years Dyestuff prices will remain weak or stable?
- Mayur Padhya:** See, as we were discussing, whatever China effect is there that is mainly in Dye Intermediate. They are in competition with Indian in Dye Intermediate and they are not in competition with India for Dyestuff, particularly Dyestuff which we manufacture. So, whenever there is any issue related to pollution there is fluctuation in Dye Intermediate. But for Dyestuff more or less realization, margin and prices remain at a same level. And that is why most of the manufacturers want to convert themselves much into Dyestuff company that will give strength as well as stability in the long run, and that is what we are following.
- Anand Bhavnani:** Yes sir. But would the increased competition in any way hurt the margins, everybody, all the top players in India, including Bodal, are expanding in Dyestuff. A couple of players, if you wish, I can name, but you must be knowing. So, my sense is competition, can it hurt or is it a stable industry despite excess capacity where prices will remain rational?
- Mayur Padhya:** See, here you need to understand three, four issues. There is a demand growth of Dyestuff that is about 5% annually which is coming from better standard of living as well as population increases, so this is one area. Another because of the government's policy, earlier demonetization and now GST, there are about 40-45% production still coming from unorganized sector in India. So there will be de-growth and it is a continuous process that small units are closing down and their capacity is shifted to big units. So, in coming times also they will face the issue because they will not be able to utilize their capacity fully because of the government regulation. And another thing is observance of norms and strictness by pollution board. See, big players like Bodal, we have setup affluent treatment plant one and half year before at the cost of about Rs. 35 crores, for small players to do such a CAPEX or even small CAPEX that will be difficult. Even if they want to do they will not have a space because most of them are operating in GIDC, so space is not there with them. So they will be forced to close or they need to operate at a lower

level. These are some of the issues. And one another is that in Dye Intermediates, India and China are the only two players, but for Dyestuff there are other countries like Japan, South Korea, Taiwan, Indonesia and some European countries, they are producing dyestuff. But slowly and gradually they also find it difficult to compete with integrated player like Bodal and some integrated player of even China. So, over there also production is reducing, there are certain examples, company like Rifa in South Korea, we were exporting earlier Dye Intermediate to them, but suddenly they stopped buying dye intermediate and then we come to know that they have stopped producing dyestuff, they started sourcing directly dyestuff from us. So, all these factors are matching with the demand, so there would not be any excess capacity or something like that. So there would not be any competition.

Moderator: Thank you. That was our last question. And as there are no further questions, I would like to hand the conference back to the management for closing comments.

Mayur Padhya: I would like to thank everyone for joining our earnings conference call. In case any of your questions remain unanswered, I request you to please send it across to us. Thank you very much.

Moderator: Thank you. With this, we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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