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To,
National Stock Exchange of India Limited BSE Limited
"Exchange Plaza", Floor- 25, P J Tower,
Bandra-Kurla Complex, Dalal Street,
Bandra (East) Mumbai 400 051 Mumbai 400 001

SYMBOL:- MFL

Scrip Code: 543332

Dear Sirs,

**Sub.: Transcript of Earnings Conference Call held on 7th August, 2023 for Q1 FY24
- Un-audited Financial Results**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of Earnings Conference Call held on 7th August, 2023 for Q1 FY24 - Un-audited Financial Results.

The said transcript is also available at www.meghmanifinechem.com in the Investor Relations section.

Thanking you,

Yours faithfully,
For Epigral Limited
(Formerly known as 'Meghmani Finechem Limited')

K. D. Mehta
Company Secretary and Compliance Officer
Membership No. FCS 2051



“Meghmani Finechem Limited Q1 FY24 Earnings
Conference Call”

August 07, 2023



MANAGEMENT: MR. MAULIK PATEL – CHAIRMAN & MD
MR. KAUSHAL SOPARKAR – MANAGING DIRECTOR
MR. SANJAY JAIN – CHIEF FINANCIAL OFFICER
MR. MILIND KOTECHA – HEAD INVESTOR RELATIONS

**MODERATOR: MR. MEET VORA – EMKAY GLOBAL FINANCIAL
SERVICES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Results Conference Call of Meghmani Finechem hosted by Emkay Global Financial Services.

As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Meet Vora from Emkay Global Financial Services. Over to you, sir.

Meet Vora: Good evening everyone. I would like to welcome the Management and thank them for this opportunity.

We have with us today Mr. Maulik Patel - Chairman & Managing Director; Mr. Kaushal Soparkar - Managing Director; Mr. Sanjay Jain - Chief Financial Officer; and Mr. Milind Kotecha - Head, Investor Relations.

I shall now hand over the call to the management for their opening remarks. Over to you, sir.

Maulik Patel: Good afternoon everyone and welcome to the call to discuss MFL's Quarter 1 FY24 performance. I believe you had an opportunity to view the "Earnings Presentation" that was released on Saturday.

First of all, I would like to talk about the renaming activity that we have undertaken:

The Board of Directors had proposed renaming the Company to Epigral. The proposal is approved by shareholders and also got approved by the Ministry of Corporate Affairs. This renaming is undertaken to strengthen our corporate brand in line with our commitment to transform the Company as a global multi-product chemical conglomerate and enhance our reputation as an integral partner for esteemed clients and our stakeholders.

Now, let me give you an update on the business:

FY '23-24 started with a quarter that witnessed events like global level slowdown and destocking impacting the chemical industry both at demand level and also at realization level. We too witnessed a quarter with a drop in revenue, majorly on account of drop in realizations and slowdown in demand. However, we achieved volume growth of 11% year on year in quarter 1 FY24 and this volume growth is in line with our expansion plan resulting in volume coming from CPVC, epichlorohydrin, and hydrogen peroxide. Hence, our diversification and the continuous CAPEX that we did in previous years have played a big role in having lesser



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impact compared to if we would have not diversified. This resulted in revenue contribution from derivatives and specialty chemicals at 38% compared to 21% from similar period last year. We estimate this volume growth story will continue further as these new projects will further contribute in FY23. Also, the current slowdown scenario we believe is a short-term phenomenon and the situation should improve by quarter 3 onwards.

Considering our long-term vision, we are on schedule for our expansions of CPVC of 45,000 tonnes per annum and chlorotoluene value chain and this will drive volume growth in FY25. Our R&D center is also almost ready. Hence, we are ready with another strong pillar for our future growth in the specialty chemicals segment. We also have commissioned 18.34-megawatt hybrid power plant in quarter 1 FY24, a step towards green energy and this will also add to savings and P&L to the extent of price difference with the grid. We believe that the current scenario is a phase that will pass and the long-term story remains intact. Hence, we are preparing ourselves for long-term growth and we are moving in that direction. We are focused to do continuous expansion in high-value and high-growth products, strengthening our integrated complex and catering to the diversified industries to bring consistent growth in the business.

I now hand over the call to Mr. Sanjay Jain, – our CFO, who will take us through the financials.

Sanjay Jain:

Let me take you through the “Financial Performance” of the Company:

Quarter 1 FY24 revenue was down by 15% year-on-year comparison. This is mainly on account of realization which was down by around 26%. However, the volume has gone up by 11% with commissioning of the new capacity of CPVC and epichlorohydrin. With an overall slowdown and drop in realization & consumption of high-cost inventory, the EBITDA and PAT de-grew on year-on-year basis.

The raw material prices, which have softened but not as substantial as decrease in our realization, thus impacting the profitability margin of the Company. At trailing 12-month as on 30th June 2023, the return of capital employed is 25% and return of equity is 29%. The net debt to EBITDA has stood at 1.5x in Q1 FY24 versus 1.3 in Q4 FY23. This is on account of a drop in absolute EBITDA. Net debt as on 30th June 2023 is Rs. 902 crores as compared to Rs. 863 crores as on 31st March 2023. Net debt to equity of the Company remains at 0.8x in quarter 1 FY24. In Q1 FY24, we spent Rs. 108 crores on our CAPEX plan.

With this, we can open the floor for Q&A.

Moderator:

Ladies and gentlemen, we will now begin with the question & answer session. We will wait for a moment while the question queue assembles.



The first question is from the line of Hardik Gori from Alpha Plus Capital. Please go ahead.

Hardik Gori: There is another competitor who is planning to put up ECH capacity of similar size by Q3. Would this not create a demand supply mismatch at least in the short run?

Maulik Patel: Hardik, yes, another competitor is coming. We had started last financial year at the same time to create infrastructure to get approval from the customers. It is also a time-taking process. We have also created infrastructure in Europe and the US also. I think it took a long time for us to create this infrastructure. And now it is established and we have sailed our first vessel in the last quarter; and in the current quarter also, we have sailed our first vessel to the US. At the same time just to give you the supply-demand situation in India, all the people who are coming in India right now who are manufacturing epoxy resin, they are also on expansion mode. In the second half of this financial year, I think the major capacity addition of epoxy resin is going to happen in India. And in the next 2 years, we are expecting epoxy resin capacity will be almost double than what we have today. Definitely, this will be the excess capacity for the short term, but I think in the next 2 years, I think everything will be stabilized and it will be absorbed looking at the current infrastructure growth in India and the expansion growth of epoxy resin manufacturers in India.

Moderator: The next question is from the line of Bobby Jay from Falcon Investments. Please go ahead.

Bobby Jay: You mentioned in your presentation that you had high-cost inventories amidst falling prices. Could you mention what inventories you are talking about? Because, for caustic soda, you only need salt water.

Maulik Patel: This is including our majority raw material. If you see, all raw material prices have gone down in the last 6 months, I will say, including the glycerin high price for the epichlorohydrin including PVC for the CPVC manufacturing and the coal; energy, which was little lag behind the chemical prices, which started going down just recently. That all 3 are the major impact for the inventory.

Bobby Jay: Could you talk a bit about what your utilization is for caustic, how many tonnes you have sold, and what's the ECU currently?

Milind Kotecha: We have run a plant of caustic soda on a capacity utilization of around 70% to 75%. That is the case. And in terms of other products also, overall, the plant has run at around 70% capacity utilization. And in terms of realizations, if we look about, then the caustic soda realizations have dropped around 40% compared to what it was in the quarter last year. And in a similar range - I mean, if we talk about the overall drop in terms of the YoY, the revenue has dropped by 15%, but the realization all put together has fallen in the range of around 26%.

Bobby Jay: What is that in rupee terms? How many rupees per ton?



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- Milind Kotecha:** Caustic soda realization, the ECU that we see is around Rs. 30,500.
- Bobby Jay:** But if you look at this realization over the broader sweep of the past decade or so, it's actually in line, right?
- Maulik Patel:** The last couple of years is exceptional, yes; otherwise, it's in line except the energy cost.
- Bobby Jay:** Assuming you don't see any better caustic soda prices, how does the economics work - your profitability and everything?
- Maulik Patel:** Normally we have seen the caustic soda prices are in line with the energy prices. If you see this time, it is little lagging behind and energy prices have gone down recently in the last 1-1/2 months compared to.... normally it is in line with the caustic soda prices because there is a dealing with the caustic soda price and the energy prices right now in the world. Yes, but eventually we think that it is normally in line with the energy cost.
- Bobby Jay:** But what if it doesn't? History doesn't always repeat. If this is the EBITDA per ton that you have, how does that influence all your profitability guidance that you have been giving?
- Maulik Patel:** Normally it is in line with them because most of the people the energy cost in India or in Asia Pacific, it is the same almost. There is not much difference. Normally, the caustic soda price, in Asia at least, is driven by the energy price.
- Bobby Jay:** What is the difference in EBITDA per ton today versus normal times your margins in whatever way you express it?
- Maulik Patel:** The last quarter I would say it is exceptional because the energy price has not fallen because of the high cost of inventory also and the caustic price has fallen much faster. But it is in line normally. But we are expecting almost 25% EBITDA from the caustic soda business.
- Bobby Jay:** Energy prices before were only dependent on non-renewable sources like coal and oil. But in the future it's going to be more and more renewable. You cannot expect the same correlation.
- Maulik Patel:** The energy requirement right now, which is having, it is very difficult to switch over 100% on the green because these are the continuous plants which is not possible because the green completely and renewable completely depends on the policy of the country, policy of the state. It is not normally 100% you can depend on the green energy for the continuous plants.
- Bobby Jay:** But in Europe, that's the direction they are going in. Over the next 5 years, it's going to be more and more green, which means you might end up with high coal prices, but low green resources, if you understand what I'm saying. Your margins might not be what they were historically.



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Maulik Patel: But now onwards, I think in the future, I would say at least you can invest up to 30% to 40% of your requirement by green energy, not more than that. None of the industry can afford 100% on the green base possible. It is not possible in the chemical industry, at least.

Bobby Jay: Over the next 2-3 years, what is the split between profitability terms? How much do you expect caustic to contribute? That is the biggest market, right? Your other markets are too small for you to do scale.

Maulik Patel: Yes, India is the biggest market and it is continuously growing also. The last quarter was a different situation because major export businesses like textile, agrochemicals, pharmaceuticals, everything were down because destocking is happening in Europe and the US. That is the major reason. And because of that, our customers all who are exporting, they are hampered and their efficiency and their manufacturing plants are running very low capacity. That was the case we have seen. Since we started, I think this is the first time we have seen it. But we feel that the destocking problem will soon get over. We see some positive signs also. And the second thing, in terms of the raw material cost also bottoms out and it started going up from last 1 month. So, we see some positive signs in terms of the caustic soda demand if you say, yes, everybody has expanded in India. This happened in 2010 also, it happened in 2014 also, now again in 2023. Eventually, normally, the people expand; a couple of plants are coming at the same time. This scenario was created in India; but ultimately, over a period of time, it is absorbed in India. Sometimes it takes 6 months, sometimes it takes 9 months because the Indian economy is growing unlike other countries.

Bobby Jay: Are there any imports of caustic into India?

Milind Kotecha: India is a net exporter of the caustic soda as of now.

Bobby Jay: So, no imports?

Maulik Patel: Very less. Maybe from the eastern side, but not on the western side. Eastern side, the requirement is huge in terms of the alumina. A lot of people are selling from west to east also. But still India is the net exporter. And I think the alumina capacity also everybody is expanding in India. So, we see that the caustic demand will go up if you see 2 to 3 years down the line.

Bobby Jay: You mean net exporter, right? Not net importer.

Maulik Patel: Yes, net exporter. Caustic soda flakes, India exports to African countries. And lye also in the western side, people are exporting also some volume, but not major.

Bobby Jay: Is ECH coming from Thailand or is it mostly domestic?



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Maulik Patel: ECH, yes, it is coming from Thailand. Right now, Thailand is the major supplier, but we also started supplying to the local manufacturer and gradually our market share is also growing. At the same time, we have been talking about the European first vessel. We have already started selling in Europe. And the US, our first vessel has reached in this month, and we are going to start selling from this month onwards.

Bobby Jay: But why are imports from Thailand still coming? Are you not price competitive with the ECH from Thailand?

Maulik Patel: You are saying why we are importing from Thailand?

Bobby Jay: Right.

Maulik Patel: There have been long-term relations with that supplier. So, it is very difficult to crack over a period of time to switch over the entire volume, we believe that. Gradually, definitely, the Indian capacity is also expanding. The people are expanding their capacity. So, they need a local support to run their plant efficiently. We believe that eventually our market share has the capacity and the demand is growing in India, our share will increase much faster.

Milind Kotecha: However, on a quarter-on-quarter basis, we have seen the volume increase in the domestic level and the export level also. That is increasing on a continuous basis, but the pace is not that what we had expected. But we believe that as things improve from Q3, that pace will further expand, and I guess by Q3, we will reach the optimum kind of a thing.

Maulik Patel: You are right, the market in the export also, it is a little lower side. That's why our approval takes a little longer time right now because people are not in need right now, but our share is increasing, our spread is increasing, our customer base is increasing right now. I think we will get advantage once the cycle will revive in the export market and the domestic demand will go up as the expansion of epoxy manufacturing is going on right now in India.

Moderator: The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: I had a few questions. You had mentioned that the net debt is about Rs. 900 crores. Does this include the preference shares that are outstanding on our balance sheet? It includes that?

Sanjay Jain: Yes.

Anirudh Shetty: We are in a period where our absolute EBITDA is actually declining and we have debt on our balance sheet. It would be good to know about what is our sense of what absolute EBITDA we could do in 2024 and just get comfort that the net debt to EBITDA for the year does not go to a



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very high level? Could you just share your views on where you see net debt to EBITDA shaping up for our 2024 year?

Sanjay Jain: The first question about the preference shares of Meghmani Organics Limited; that is there in the total debt of Rs. 900 crores. With regard to the absolute EBITDA for the FY24, this may be in the range of Rs. 450 crores to 500 crores. The way we are doing expansion, we are looking that our debt to EBITDA may remain in the range of 2.

Maulik Patel: Less than 2.

Anirudh Shetty: We are aspiring to get to Rs. 5,000 crores by 2027 and we want to increase our share of the downstream caustic soda also will remain a meaningful share of our revenues then. Given that this is such a volatile business and the realizations of the sales bouncing up and down, how does one get comfort that we can actually get to this Rs. 5,000 crores? Because no one knows what the cycle could look like 3-4 years later, how does one get confidence in achieving this target?

Maulik Patel: Anirudh, our first target is the volume which is in our hand. Based on the continuous expansion what we are doing, continuous CAPEX plan what we have, and continuously the new product addition what we are doing it right now, that we are very sure that we are going to achieve it. You are right that the time when we have finalized the Rs. 5,000 crores, it may be here or there. It may not be exact Rs. 5,000 crores. Sometimes in down cycle like current situation, it may be Rs. 4,500 crores or Rs. 4,600 crores kind of thing. But yes, normally on a longer-term point of view, we believe that we will achieve those numbers - Rs. 5,000 crores - based on our expansion plan and the CAPEX plan.

Anirudh Shetty: And we are aspiring to also get to 28% EBITDA margin plus or minus and 25% pre-tax ROCE. When we look at the chemical players, 25% pre-tax is something that probably the best-in-class chemical companies who have very strong chemistry skills or very strong integration are making those numbers. Given that we are looking to do more and more downstream, but also we have other competitors who want to do those downstream products as well, what gives us the confidence that we can maintain this 25% ROCE? And if you could also give more color on why these downstream products are either technologically challenging or require multi-step chemistry or there is some edge here, that color would help us appreciate why it's a tough business to do.

Maulik Patel: The chemical line is not that easy. Once you are setting up a plant, you need to stabilize it, you need to capture the market, and you need to take approval of the customers. If you start thinking today also, it will take 3 to 4 years' time minimum to stabilize or to reach at optimum level of the chemical plant. We are in a country like India where everything is growing, the demand is growing, we believe that the demand always will be growing much faster than the manufacturing capacity which is coming in India. Definitely, it happens. Sometimes, there is



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overlapping and there is overcapacity for a short term of time. But eventually, this capacity will absorb very easily in India looking at the country which we are growing right now.

Anirudh Shetty: The downstream products that we are in, are they more technologically challenging products that we are doing where it requires R&D or chemistry, some specific know-how, or what is the edge in these products if you could explain?

Maulik Patel: In the chemical plants, sometimes some of the products we are selecting which are on the chemistry base in the chlorotoluene where we are creating R&D center also and where our focus in the future, we would like to do more value addition in the different chemistry. Those are based on the chemistry. Some of the products which we are selecting, the technology is easily available but they are more challenging on the engineering side. But we are firm that we would like to grow in both kind of things where technology is easily available from the other part of the world; we would also like to grow in that line also as well as the technology which is not available, for that, we would like to create our R&D center. Both the focuses are there because in a country like India, there are many chemicals where some of the chemistry or some of the technology which was not feasible in the past, we believe that in the coming times, at least 1 sizable plant will be feasible in India. So, where the technology is already available and it is already developed, we don't want to focus our R&D to develop something in that line. We just need to install the plant and start supplying to the customers and it is based on the domestic supply.

Milind Kotecha: To add to what just Maulik said, when we select any product down the line, we select a product which itself has a growth potential in the range of 10% to 15%. So, the market itself will grow even if someone enters. That is one thing. Second thing, considering the way, like earlier Maulik said, the way the demand in India is growing, any new capacities coming in that particular field also will be easily get absorbed.

Anirudh Shetty: And 38% of our sales is downstream today. It would be helpful to know what is the mix by product because each product has its own demand-supply dynamics. It would be easier for us to analyze your business better if you can give the downstream by product as well.

Milind Kotecha: The 38, as you would know, consists of the chloromethanes, hydrogen peroxide, ECH, and CPVC. We are actually not sharing the product-to-product turnover. It would be difficult to give you that number as of now.

Maulik Patel: But this number will increase on a quarter-on-quarter basis because now the ECH and CPVC will contribute more in that number and other plants are all stabilized. So, you will see quarter on quarter, the growth will happen in the downstream and value-added chemicals.

Anirudh Shetty: So, CPVC and ECH will drive our volume growth in 2024?



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Maulik Patel: In 2024 and in 2025 also because we are expanding CPVC that will be commissioned by quarter 4. So, in '25 also, CPVC volume as well as the new chlorotoluene which will take a little longer time for the approval. But yes, in the FY25 also, CPVC will drive the volume.

Moderator: The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Can you just talk a bit about chlorotoluene and CPVC in terms of how big is the market today in India? And secondly, how do we see our revenue share in that?

Maulik Patel: CPVC, the Indian market is almost around 2,25,000 tonnes per annum and which is growing almost at double digit looking at India's infrastructure and the residential market is growing in every tier-2 and tier-1 cities. This is the market of India and Indian manufacturing capacity is only 40 KTPA right now. That we are expanding to 75 KTPA (75,000 metric tonnes) looking at the growth in India in the domestic infrastructure market. And another is, you said chlorotoluene. Chlorotoluene is mainly for the specialty. It is specialty kind of thing where we are focusing on various chemistries, and there our customers will be the specialty chemical companies like all custom-manufacturing companies who are doing custom manufacturing for the multinational agrochemicals or the pharmaceutical companies. They are going to be our customers which they are depending completely right now on Chinese. They import raw material and they are doing value addition.

This is the first time-in-India plant and we are planning 50% domestic market, all the specialty companies and 50% will be the export market where all the multinationals, they already have 1 multipurpose plant in Europe or in the US.

Naysar Parikh: A follow-up on CPVC. It is obviously highly competitive from an import standpoint as well versus imports from China, etc., will our pricing be lower or how will we compete with the import market?

Maulik Patel: We keep a fair price. Normally it is driven by the product quality also. It is not only price driven because in this CPVC segment, there are A, B, C kind of customers where some people they are very highly quality sensitive and they care about their quality and their brand. There, we don't find any major competition. But in the C category where we are selling, we find little competition from the import and there we are doing pricing accordingly. But yes, as you rightly said, the volume of Indian manufacturers is growing. So, they for the consistent manufacturing and consistent supply because we are just a small part of manufacturing capacity right now in India. So, definitely it supports there to bring their efficiency in terms of the manufacturing efficiency because local supply they don't need to keep a long planning. Once they place an order, it will reach within 24 hours to their warehouse and they can start using it. There are a lot of advantages. So, they are always giving us a priority. So, the bigger customer always they are thinking that local support will be always beneficial for them to run their plant efficiently. And that kind of advantage we are getting it right now.



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Naysar Parikh: Do you think from a margin perspective, you can get what kind of margin in CPVC? What is your target margin?

Milind Kotecha: Again in terms of EBITDA margin, we believe that the range should be between 25% to 28% or longer. We don't give product-to-product margin, but whenever we select any product, our margin revolves around 25% to 28% and ROCE of around 25 or above that.

Naysar Parikh: Second question was on the high-cost inventory that you mentioned. How much high-cost inventory you still have and how many more quarters do you think there will be some pressure because of pricing on inventory?

Maulik Patel: That is done. I would say in the last 2 quarters, most of the chemical companies have taken a hit in terms of the inventory loss. The inventory loss may be a minor thing but not the major thing that was in the quarter 4 or quarter 1 this year. Now onwards, I think it is going to be a very minor change, but we see that now the things are moving upward also in the last 1 month because I think the global situation as well as Chinese domestic demand has also picked up. To revive their economy, the government has also taken some steps in China and that also will boost the infrastructure in China and that demand locally has also picked up in China. We see everything has now, I think, bottomed out in the last quarter. And from July onwards, we are seeing a couple of raw materials started going upward. So, I don't think any inventory loss will be there from quarter 2 onwards in majority of the companies. Minor will be there but it won't be a major thing.

Naysar Parikh: From a margin perspective, how do you see, say the rest of the year? Do you think that from next quarter onwards, you will start touching the 25% margin and then towards the end of the year maybe even hit 28% based on the visibility you have?

Milind Kotecha: Again, considering the current situation, as Maulik said, things have started looking to improve. But, again, the benefit of that might come in the Q3 onwards. So, year as a whole, we believe that we might be in the range of around 25% or 26% kind of a thing. But again, it's too early. Maybe in the second half, we would be able to see. If the second half improves, then things can be on the better side also.

Naysar Parikh: In your revenue mix, around 38% is your derivatives side. What would be the share on profitability? Is that similar? Would be higher or lower?

Milind Kotecha: Again, considering this quarter, the profitability from the derivatives would be a bit higher compared to chlor alkali because of the current situation that everyone knows. Again, that's where our diversification is playing a role in terms of bringing consistency which will further improve down the line as the percentage of revenue from the derivatives and specialty will go up.



- Naysar Parikh:** But I was just trying to understand from a profitability perspective, is derivatives a higher margin versus or is it a very similar margin?
- Maulik Patel:** Margin, even we are enjoying the chlor alkali also the good profit margin, but this will give a more sustainable and consistent margin. So, the derivative will always support in terms of the consistency and the longer term.
- Milind Kotecha:** Chlor alkali also, it's not that the margins are lower. In the normal situation, margins are even good over there in the range of 25% to 28% as we communicated earlier. In the current situation if you ask me Q1, then derivatives would have performed. But again, that is going to be the scenario and that's where the diversification is helping because we know that one particular quarter or one particular year or one particular product or industry might not perform; so my other levers will pull out. That's where we are trying to diversify in terms of our business revenue.
- Naysar Parikh:** One last question on the debt side for this year. Are there any long-term debt or something? Are there any maturities that we have which we need to repay or refinance? How do you see that path? If you can just give some clarity. Like someone else also asked, the debt is high which is a bit concerning.
- Maulik Patel:** Right now in quarter 1 also, debt to EBITDA ratio is almost 1.5. We believe that we are consistently doing CAPEX to increase the volume because there is opportunity in the new chemistry also in India and we are continuously investing. So, it will remain less than 2. That is our goal. We will not try to keep more than 2 the debt to EBITDA, at least.
- Sanjay Jain:** For your information, the repayment what you are asking is about Rs. 240 crores for this financial year FY24.
- Naysar Parikh:** And the plan would be to not repay, but refinance it, right?
- B Ravi:** It will be repaid. There would be a new debt for the expansion that might come. Therefore, the overall debt level may be around that Rs. 900 crores level and still be under 2. There will be repayment plus the expansion also has got a certain amount of debt that we will avail. That actually almost squares it off. The debt level, therefore, would remain around the same or just slightly below than what it has been in the previous year.
- Maulik Patel:** Overall, our volume will increase in the epichlorohydrin and the CPVC business. So, in absolute terms, the debt may not go down substantially, but eventually, in terms of ratio, it will go down.
- Naysar Parikh:** The new plants that you have you said, can you just again reconfirm when do you expect to see the revenues flowing on both chlorotoluene and CPVC?



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Maulik Patel: Chlorotoluene definitely will start revenue from FY25 onwards slowly and gradually. And CPVC, as we have already experienced, we have already networked, and as soon as we start the production, it will start reflecting in the balance sheet. This will be also from the beginning of quarter 4.

Moderator: The next question is from the line of Sriram R., an individual investor. Please go ahead.

Sriram R: I have 2 questions. One is, what is the contribution of the non-chlor alkali segment to the bottom line? My second question is - it's a basic question - why do you think customers will not backward integrate? I am talking about chlorotoluene, ECH, or CPVC? If you can go product-wise and explain, that would be helpful.

Milind Kotecha: In terms of the bottom line, in terms of the chlor alkali and derivatives, again, as I said, we are not giving breakup in the bottom line for chlor alkali and derivatives. That is the first thing. Second thing, currently the market the way it is growing, like for CPVC, we have a manufacturing capacity of 30 which we are going to expand to 75. And there are other players who are going to expand. But considering even after that, India is going to be a net importer. Similarly, in all the other chemicals, the way the Indian demand is growing and the way people are looking for the quality products, there is a scope for all the chemicals as India is net importer of almost all the chemicals. And that's where we see that even if the new players come, there is going to be that the supply will eventually get absorbed by the demand.

Maulik Patel: Second question, just wanted to know, you are asking about each and every backward integration?

Sriram R: For instance, you mentioned that your specialty chemicals players will be your customers for the chlorotoluene. I am just wondering why the pipe manufacturers or the customers who are consuming epoxy resin cannot backward integrate.

Maulik Patel: Definitely that is possible, at least. Every chemical Company cannot set up a refinery even though they use a refinery product. Everyone's expertise is different, everyone's focus is different. Some people they wanted to focus is like just giving you epoxy resin; they want to focus on the epoxy resin; they don't want to focus on the epichlorohydrin. If you see the study of global epoxy resin manufacturing companies in the world, like Huntsman in the US, Kukdo in Korea, or in Japan, not everybody is backward integrated. Some companies become so big overcapacity in the global scale plant, then they think of just to reduce their risk, they set up a small manufacturing plant of epichlorohydrin as backward integration. But normally majority of the players are not 100% backward integrated.

Sriram R: Actually, my question comes from the fact that there is a wide demand-supply mismatch - the capacity in India versus the demand in India. That is why I am wondering why the large



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players.... Let's take CPVC for instance. Why do you think large players will not backward integrate and set up their own CPVC facility?

Maulik Patel:

CPVC, the product is a chemical manufacturing Company, they need to handle the chlorine which is coming out from our backward integration plant. Everybody, they don't have this expertise who can do buying chlorine from the market and setting up a plant. It is always a tedious rather than if you have your own backward integration. Second thing, the people who consume, they are B2C and brand focused and B2C kind of companies where they invest. Their focus is not on the backward integration. Even though the PVC pipe manufactures, none of the PVC pipe except Finolex has backward integration. Everybody else, they buy PVC from the market only. The same thing will happen in the CPVC. The people who are focused on the B2C distribution, they wanted to focus and expand their market share and the brand image. They don't want to focus on the backward integration where they don't have enough skill so far. It's a different concept, different mindset. It is not that they cannot do. Of course, they can do if they have focus; they can do it. But normally, people who are on the brand side, who are on the B2C side, they wanted to expand always on the B2C side and they wanted to procure the raw material from the third party like all the PVC pipe manufacturers are doing it.

Moderator:

The next question is from the line of Rajesh, an individual investor. Please go ahead.

Rajesh:

I just wanted to ask to one of the callers, you said that in the last 2 years, the realizations were on the higher side and this year the realizations have come to the normal range. Also, we are talking about there is a lot of competition that is also expanding. Going forward, will the realizations remain the same? If they remain the same, then are we going to play only the volumes game? How does that really work in terms of that Rs. 5,000 crores guidance that we have been talking about? Other than volumes, how does it really work?

Maulik Patel:

Yes, you are right. The situation which we are facing right now.... The last 2 years were fantastic for all the chemical manufacturers. And because of that, most of the chemical companies, they have expanded. And right now the market is slow. There is an overcapacity right now. But looking at the Indian market, we believe that it will be absorbed sooner or later like what happened in 2010 in chlor alkali, what happened in 2014 in chlor alkali. When a couple of plants expand together, definitely it will take.... Whatever the capacity is coming, overcapacity at the same time, people are expanding in India. But if you see in the 6 months' or 9 months' time, eventually it is absorbed in India. So, we don't see this is going to be a long-term scenario. In any chemical if you see, eventually it is absorbed in India. We are in a different kind of region right now in India compared to apart from the Europe and the US where whatever you are manufacturing, everything will be absorbed. Yes, it takes sometimes 6 months' time or sometimes 9 months' time depending on the economic situation of the world at that point of time. But eventually, everything will be absorbed. That's what we believe.

Rajesh:

Are you saying that at some stage, the realizations will go up again?



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- Maulik Patel:** Of course, yes. Quarter 1 is going to be, I think, the worst quarter since we have started manufacturing. It is not going to remain the same forever.
- Milind Kotecha:** This proves as a bottom kind of a situation and as the demand is also kind of slowdown that we are witnessing in the global market and also in India, once that revives, things will be better from here what it is right now, both in terms of volume and also in terms of value.
- Moderator:** The next question is from the line of Bobby Jay from Falcon Investments. Please go ahead.
- Bobby Jay:** Would you be able to share the breakeven cost for caustic soda for the industry?
- Milind Kotecha:** Breakeven for the caustic soda for the industry as a number, it's difficult to put because, again, that depends how fully integrated you are. Because as you know, for manufacturing caustic soda, chlorine is a bottleneck. I won't be able to put a number, but generally in a normal situation, the EBITDA margin that one can make on the caustic soda will be around 25% to 28%.
- Bobby Jay:** But that would depend on the price, right? What I am trying to get at is, in 2011, caustic prices dipped to Rs. 11,000. There were people actually making money. So, there must be a breakeven cost for every commodity assuming you have the chlorine.
- Maulik Patel:** I got your point, but it depends on how is your power source, how is your backward integrated in the power plant or not.
- Bobby Jay:** Assuming that you have coal, assuming your current situation, what would be your breakeven? When would you start losing money in caustic? What ECU should that go to?
- Sanjay Jain:** With regard to breakeven for costing as of today's scenario, we think that maybe around Rs. 24,000 to Rs. 25,000 per ton may be the right price.
- Bobby Jay:** So, if it dips below Rs. 24,000, you will actually lose money in selling caustic?
- Maulik Patel:** Yes. Energy price and the realization prices keep changing. It is not the constant thing.
- Milind Kotecha:** It can be impacted in the one quarter because we would be sitting on the inventory of which we bought last quarter. That would be the only lag. Otherwise, in this situation also, like Q1 what we are witnessing, the margin would not be 25% to 28%. It will be lesser than that. But we don't see how it will be because generally the demand also matches in line with that and no one would make a loss to sell the caustic soda in the market.
- Bobby Jay:** So, you made profits this quarter in caustic. I know you are not giving the exact numbers, but perhaps you can share this.



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- Maulik Patel:** Yes, of course.
- Bobby Jay:** So, it's not as bad as the whole industry is facing losses or something.
- B Ravi:** Bobby, anyone might be doing that, but as far as MFL is concerned, the kind of an input cost that they have and the infrastructure they already have built and integrated, they will be the last one to be losing. Even if everybody else loses, they will be the last to lose. We don't see that situation happening at all anytime sooner or later.
- Moderator:** The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.
- Naysar Parikh:** My question was that given the increase in capacities that are there in the industry, why do you expect that the realization will still go up? Especially, it is not like you are making mad margins. At this level also, you seem to be making 15% plus margins. So, why do you think realizations will go up from here on?
- Maulik Patel:** We would not say it will go up, but I would say that the capacity which is coming up right now in the market, it will absorb. When the capacity is little over in the market and which will absorb, automatically it affects on the realization. It also started going up. It's a natural phenomenon.
- Milind Kotecha:** Again, if we look for that one particular product, I mean if you look at it depends on product to product. In chlor alkali, currently the prices are impacted because new capacities have come up. That is one thing. Second thing, the demand is also impacted. Now, new capacities are going to stay, but the demand is going to revive. And when that happens, the price will move up. Again, we don't say that it will move to what it was last year, but again, the current prices which are there, that is also not something which might be lasting for a longer period of time. That's where we say it might move up from here a bit.
- Naysar Parikh:** And what are the key pockets where you see this near-term demand revival?
- Maulik Patel:** The western part of India is mainly driven by all the chemical companies like pharmaceutical or the agrochemical companies or the specialty chemical companies and the textile. I would say all the segments in the export are now running very low. Looking at the festive season in India started picking up, we believe that it will start moving in the textile. Already we see some positive signs in this month. And in looking at the export destocking, we expect that it will start probably by September, it will start supplying because the inventory which was there piled up long term back in this financial year, which they will be adding more stock probably after September. That was the scenario which we are seeing right now. And because of that, all plants slowly and gradually started running their plants around 60% to 70% and 80% eventually. We hope that the second half of this financial year will be better compared to the first half.



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- Moderator:** The next question is from the line of Praveen Sharma, an individual investor. Please go ahead.
- Praveen Sharma:** My question is what were the chlorine prices in the last quarter and how much of the chlorine we are using in-house, backward integrated?
- Milind Kotecha:** Chlorine consumption in-house is around 65%. And as we are going to add in terms of the additional capacity of CPVC and the chlorotoluene down the line, it might reach around 75% in 1-1/2 or 2 years' time, and eventually we target to reach 85% chlorine consumption in-house that includes the pipeline customers.
- Sanjay Jain:** Price is in the range of Rs. 3 to Rs. 3.5 to Rs. 4 negative as of now.
- Praveen Sharma:** The next question is, typically say somebody is taking 100% grid power, in terms of percentage, how much is the production cost due to power for caustic soda? How much does power contribute to caustic soda production typically on a generic basis?
- Maulik Patel:** Normally, when it's a good time like the last couple of years, you can survive without a power plant also because that was a once in kind of situation. But in the current times, I don't think anybody would like to run their caustic plant without a captive power plant or grid. I think it is next to impossible to run their plant.
- Praveen Sharma:** My question was in terms of production cost. The raw material: one is the salt water like brine, industrial salt. The second is power. These are the 2 main ingredients to produce caustic soda, correct?
- Maulik Patel:** Yes. Normally, it will vary; depends on the energy price. But normally, it is between 50% to 60%.
- Praveen Sharma:** And somebody goes on green means he can save 25% to 30% of that?
- Maulik Patel:** Grid continuously 100% is not possible. Some portion of the green energy you can convert to the caustic manufacturing but not 100%. The maximum people can go is up to 30% to 40%, but not more than that.
- Praveen Sharma:** So, maybe one-third of the 40% is what is the saving?
- Maulik Patel:** Yes.
- Praveen Sharma:** Sir, my last question is more generic on the chemical industry. We have been hearing about this destocking for 1 year almost now. Our dyes, pigment, and all other industries have been suffering and we have been hearing in different con-calls. Is this an issue of destocking or is there issue of the end consumer demand?



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Maulik Patel:

I would say it is both it was there, but destocking eventually it will be again they will start buying it. What we see is that in the second half of this year, everyone will be.... We see that now the stock is going away right now, all the stocks, and they have started discussing with the manufacturers also. And this will eventually it is going to restart. Because of the China COVID situation, because of the supply chain issues, European and the American companies have planned big in terms of the overstocking. And definitely it takes a little longer time this time you are hearing, that is right, destocking. But I think almost we are on the end of that part. I think probably in the beginning of the second half this year, you will not hear the same story again and again. But yes, some portion of the demand as well as some portion of the stocking, both are affecting in the last 1 year.

Moderator:

Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Kaushal Soparkar:

In conclusion, I would like to convey that the long-term story of India remains intact and the current situation is short term. Hence, looking at the Indian consumption story, we are positive about long-term outlook and we are working towards that. Our future expansion and diversification in terms of multiproduct catering various industries, we are targeting consistent growth both at top line and bottom line. I would like to thank you all for joining us here today. Please feel free to reach our IR if there are any unanswered questions. Thank you everyone for your participation.

Moderator:

Thank you members of the Management Team. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.