



# IG PETROCHEMICALS LIMITED

30<sup>th</sup> May, 2022

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<b>BSE Limited</b> Corporate Relationship Department 1 <sup>st</sup> Floor, P J Towers, Dalal Street, Mumbai - 400 001  <b><u>Scrip Code: 500199</u></b>	<b>The National Stock Exchange of India Ltd.</b> Exchange Plaza, Bandra Kurla Complex, Bandra (East) Mumbai – 400 051  <b><u>Scrip Code: IGPL</u></b>
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Dear Sir,

**Sub: Transcript of the Earnings Conference Call held on 23<sup>rd</sup> May, 2022**

In continuation to our letter dated 23<sup>rd</sup> May, 2022, please find enclosed the transcripts of the Earnings Conference Call held on 23<sup>rd</sup> May, 2022.

We request you to take the same on records.

Thanking you,

Yours faithfully,  
For I G Petrochemicals Limited

Sudhir R. Singh  
Company Secretary

Encl: As Above



# “IG Petrochemicals Limited Q4 FY2022 Earnings Conference Call”

May 23, 2022

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**MANAGEMENT: MR. PRAMOD BHANDARI - CHIEF FINANCIAL OFFICER –  
IG PETROCHEMICALS LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the IG Petrochemicals Limited Q4 FY2022 Earnings Conference Call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pramod Bhandari . Thank you and over to you Sir!

**Pramod Bhandari:** Thank you very much. Good afternoon dear friends. On the behalf of IGPL I extend a warm welcome to everyone for joining us on our call today. Unfortunately, Mr. Nikunj Dhanuka, Managing Director and CEO could not participate in this call due to really extremely bad throat, so on that behalf I welcome you once again. On this call we are joined by SGA our Investor Relations Advisor. I hope everyone had an opportunity to go through the financial result and the investor presentation, which were uploaded on the stock exchange and our company website. To begin with, I will give you a quick overview of the recent development in the chemical industry followed by operating and financial performance of IG Petrochemicals.

In terms of industry overview, in FY2022 t the prices of all the key raw materials followed by the crude oil have been very volatile and sold rapidly due to the various factors like global supply chain disruption, unprecedented events like cyclones at few developed countries. Global logistics charges have increased dramatically in the past two years and preferences for domestic players have been rising up quite sharply. A domestic player like IGPL who is strategically located near to the clients and vendors had a minimum impact on their business and gained the credibility of being a reliable partner. The ecosystem of Indian Chemical Industry has changed fundamentally led by a significant response in the policy across the various industries. IGPL is a three decade old organization is a part of Dhanuka group. We are one of the largest producers and world’s third largest producer of phthalic anhydride. Phthalic anhydride is a downstream product of orthoxylene, the consumption of PAN and its derivatives is growing rapidly over the past few years. The consumption of phthalic anhydride was historically concentrated in the paint, plasticizer and CPC industry. We have witnessed a lot of changes in the last few years and many other industries had increased the application of PAN. PAN is now used widely not only for the historically for the paint plasticizer but also in the specialty chemical, agrochemical, specialized polymer, electrical and electronic products, insect repellents and polyester polyols, etc. It has also



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been innovatively used for the making plastic currency, paper boards, leisure boats, sail of windmill, etc. This industry is primarily served by a very few players not only in India but globally. We manufacture this product at a highest chemical capacity of 222000 ton per annum. This capacity is managed by a highly skilled manpower and with high quality control checks. Due to the high growth in the end user industry the phthalic anhydride is no longer a pure commodity product but a semi-commodity product like a basic chemical. It is gradually moving towards the necessary chemical, which are in demand and visibility is looking very high. We have four key products in our portfolio apart from phthalic we also produce maleic anhydride, benzoic acid and DEP. We have four units of manufacturing facilities at Talaja. Currently, we have capacity of 7666 tons of the maleic anhydride and 1300 metric ton of the benzoic acid. Another key development is that we have commissioned the expansion of our new downstream product DEP, we have added 8400 ton of capacity at Talaja, Maharashtra. This product is primarily used in the industries like incense sticks, personal care products like cosmetics, formulation, toiletries, plastics. In FY2022 around 120 Crores of the revenue is contributed by non-phthalic product, which include maleic anhydride, benzoic acid and DEP and others.

Let me talk about the expansion, the Board of Directors has given their approval for the expansion of phthalic anhydride with a brownfield capacity of 53000 ton at Talaja. The expansion is estimated to cost around 350 Crores and is targeted to completed by March 2024. Post PA5 our total capacity of phthalic may increase to 275000 ton. We also wish to expand our downstream derivatives and plan to expand our footprint in Indian and domestic export market, which will not only improve our operational leverage but also boost our profitability. Objective of this expansion is to diversify and increase the revenue pie of downstream products and other derivatives. In terms of the financial performance we have recorded the highest ever annual performance both in terms of revenue and profitability continue with the growth momentum from the preceding year. We continue to maintain a high growth trajectory of the PAN and MAN businesses. For the quarter ended FY2022, the total revenue and other income has stood at 519 Crores, EBITDA for the quarter was 115 Crores. EBITDA margin stood at 22% because supported by the better product mix and the better spread between OX and PAN. Profit stood at 74 Crores for the quarter. Profitability is strictly not comparable with the Q4 FY2021 because we have taken a one month shutdown for PA-1 units for change in catalyst during Q4 FY2022, which impacted the PA and MA volume also that has resulted into higher expenses on account of repair and maintenance and the fuel charges for ramping up the unit post change in the catalyst. For FY2022 total revenue stood at 1,892 Crores a growth of 68% on year-on-year basis, domestic market contributes roughly 85% to 90% wherein the international market contributes around 10% to 15%. Revenue from non-phthalic product has contributed around 120 Crores against 54 Crores for last year, this include revenue from maleic, benzoic acid and DEP. EBITDA



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stood at 416 Crores, which is , a growth of 37%, EBITDA stood at around 22%. Net profit for FY2022 stood at 267 Crores, a growth of 41%. Overall the robust performance during the year has further strengthened our balance sheet and cash flow. We are pleased to share our strong t balance sheet position where we are net debt zero company. Our capex for PA5 will be around 350 Crores, which will be partly funded through internal accruals and bank borrowings. In terms of the long-term vision, we continue to explore the opportunities in downstream derivative chemicals, chemicals with similar chemistry and other specialty chemical to diversify our overall product portfolio. We believe that we have laid a strong foundation for future by focusing on the long-term growth in the end user application market. To reiterate our long-term goal is to become a well diversified chemical company with a leadership position in the core business. We will diversify our business product range by expanding into various downstream derivative chemicals and speciality chemical to meet our vision to generate 30% revenue from non-phthalic product by 2025. Given the company's strong performance, the Board of Directors has recommended a final dividend of Rs.10 per share equivalent to 100% to reward our shareholders. With this, I conclude my presentation and open the floor for question and answer.

**Moderator:** We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembled. We have the first question from the line of pneumonia from Nirav Jimudia from Anvil Research. Please go ahead.

**Nirav Jimudia:** Sir, my first question is, you mentioned in your opening remarks that there has been increase in the operating cost this quarter, so as we can found out on a sequential basis your operating cost has gone up from 57 Crores to almost 68 Crores this quarter, so if you can just quantify in terms of how much was due to the change in catalyst and how much was because of the increase in the fuel cost what you mentioned?

**Pramod Bhandari:** So, overall because of the fuel and change in catalyst, 12 Crores to 15 Crores was increased during the quarter, but we have four phthalic plants and we need to change the catalyst every three years, so every year there is one PA plant where there will be a change in the catalyst, r for the full financial year they have changed the catalyst for two plants, so this quarter is a reflection of the one shutdown taken for the change in catalyst of PA1, which was roughly including the fuel cost

**Nirav Jimudia:** In Q4 if you can just mention how much was our MA as well as benzoic acid sales for Q4?

**Pramod Bhandari:** So, benzoic acid was around 4 Crores to 5 Crores and maleic was around 104 Crores.

**Nirav Jimudia:** This is for the full year right?



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- Pramod Bhandari:** Yes, I am talking about full year.
- Nirav Jimudia:** So, balance would be the DEP sales?
- Pramod Bhandari:** Correct, DEP was 4 Crores to 5 Crores. Basically for the year the maleic sale was Rs.104 Crores and the DEP has just started recently so we have just able to ramp up the capacity, the reflection of the revenue from DEP would be seen from next year onwards.
- Nirav Jimudia:** Got it and Sir you mentioned that in Q4 we had taken the shutdown, so how much was the production impact in Q4 and if you can mention for the full year utilization for phthalic that would be helpful?
- Pramod Bhandari:** It is typically 5% to 7% production impact for the quarter, we have capacity of 222000, again we will be taking the shutdown for one of the units for change in catalyst during the year, which has not been yet decided, typically we are going to cost between 200000 to 210000 ton of phthalic production and around 6000 to 6500 ton of the maleic production.
- Nirav Jimudia:** This is for FY2023 you are mentioning?
- Pramod Bhandari:** Yes.
- Nirav Jimudia:** But for FY2022 what was the utilization rate or what was the production?
- Pramod Bhandari:** I will not be able to give you direct quantity, but generally the utilization is between 90% and 95% except the DEP, which has just started.
- Nirav Jimudia:** Got it Sir. Thank you so much for the answers and I will get back in the queue.
- Moderator:** Thank you. We have the next question from the line of Dhaval Shah from Svan Investment. Please go ahead.
- Dhaval Shah:** Typically the ratio of MAN to PAN is around 3 and 3.5% in terms of volume, is my understanding correct?
- Pramod Bhandari:** Yes, you are right, 3.4% to 4% depend upon the quarter where you are taking shutdown then it is slightly lower.
- Dhaval Shah:** Agreed, now between FY2020 to FY2022 three year period our non-PAN revenue has increased from 45 crores to 120 crores, so is this because of the rate at which the prices



have changed of non-PAN products different over the three-year period or there is new product, which have been added which is leading to this?

**Pramod Bhandari:** It is a combination of both because what happened is when we have completed the PA4 unit then it added around 1500 ton of maleic into the production also, so first there is the overall quantum change and overall better realization in the maleic, then there is addition to the benzoic acid which also undergoes change by 30% because of the expansion of PA4 unit and then a new product being added like DEP. DEP of course is a very small right now, it is like Rs.4 Crores to Rs.5 Crores, you will see the annualized Rs.60 Crores to Rs.70 Crores next year for the DEP, so combination of these three products and then there are other revenues all put together become 120 Crores.

**Dhaval Shah:** Sir, what is the ratio of benzoic acid to PAN capacity, is there a relation?

**Pramod Bhandari:** It is very small; I think 0.2% to 0.3%.

**Dhaval Shah:** This shutdown, which we took in the quarter so generally every quarter, every year there will be as you said every three years it needs to be changed, so it is business as usual right?

**Pramod Bhandari:** Yes, it is a business as usual and every year we need to change the catalyst for one unit, but since we have four plants now in a particular way it will be doing twice out of three years.

**Dhaval Shah:** Got it and the last question, in our past conversation we had discussed about the newer application of maleic anhydride, which were happening in China for recycle plastic, so could you throw some light on it, what is the development on that?

**Pramod Bhandari:** Basically, historically it is used for two to three sectors now we are catering to more than 15 to 20 sectors, like in speciality chemical, agrochemical, specialized plastics, engineered plastics, speciality films, a lot of new industries are being added so not only the existing guys are expanding this capacity but because lot of new industries are being added as a consumer of phthalic so it has not remained a commodity it has now become a semi-commodity chemical, the usage has been increased rapidly and now typically 75% to 80% of the chemical industry supply our product.

**Dhaval Shah:** But anything in particular because you were quite positive about this recycle plastic application where there were specific maleic anhydride capacity is being put up in China for this application and China had some single use plastic policy by 2025?

**Pramod Bhandari:** China is getting into the big way in maleic because maleic has a great future lot of things from the derivatives of maleic being generated like disposable plastic, this actually



evaporated in the environment in six to nine months, so a lot of countries where they have implemented single use plastics are getting into the maleic and downstream applications.

**Dhaval Shah:** An application of PAN in road construction anything on that?

**Pramod Bhandari:** If you look at the PAN it is being used at various places, in India we called it UPR, it is used 1% or 2% in the UPR while in developed countries 25% of phthalic goes into the UPR, which is used in the dams, roads, bridges, in India it has not taken off and even the lot of pipelines if you see the underground pipelines in India, water pipelines 80% are coated because they have been built between 1940, 1950, or 1960, from that government needs to change the policy then somebody will be able to build pipes based on the UPR, which has a shelf life of between 100 to 125 years, so that will be a big trigger for the purpose of usage..

**Dhaval Shah:** Just in my channel checks there is some pressure, there is a demand destruction, which has happened due to the high prices of various commodities including PAN so in that scenario how is export as an opportunity for us, are we able to divert our volumes to the export market?

**Pramod Bhandari:** Typically we try to first satisfy the domestic market and then balance 10% to 15% we export, but we export for the purpose that it is a diversification of overall portfolio. Typically in the last nine months we have seen such a strong demand in India, and we were selling 20% in export market, but last quarter if you see the 90% in the domestic market not only the existing guys are expanding their capacity, but because of China plus lot of guys are getting into lot of specialty chemicals and this is they are getting into that chemical or chemistry first time, they also need the phthalic so we try to sell more and more into domestic market because first we need to fulfill the demand of domestic market, even today when we are selling in domestic market 8000 to 10000 ton is imported by India every month still 100000 ton to 120000 ton is imported by India, so we believe that we need to maintain a fair balance, having said that we still maintain to have a 10% to 20% export market share.

**Dhaval Shah:** So, in FY2022 you exported 20% quantity?

**Pramod Bhandari:** No, Q3FY20 15% for last quarter now it was 10%.

**Dhaval Shah:** Q4 was 10% otherwise FY2020 was 15% in nine months and historically you were doing 20%?





**Pramod Bhandari:** Correct, the domestic demand is very strong and it is very difficult to import because of logistics, lot of other issues, so we believe it is first as a duty to supply to the domestic market and then we need to look at the export.

**Dhaval Shah:** What will be the entry barrier for a new player to come because it is a two player industry in India quite strong both of you, and a very lucrative opportunity as well, so is there an entry barrier in terms of feedstock availability?

**Pramod Bhandari:** I think there are two ways to look at that, when the margins remained good or decent because now it becomes a semi-commodity rather than a commodity, margin remains good, I think there are two things, first is the chemistry, it is not like a normal steel or cement plant where you set up and you start production, the chemistry is typical and very crucial, it is not possible for everybody to manage for all chemistry, so that is one because everybody with the money cannot setup the refinery, it is a similar case until and unless you are experienced and exposed of operating that plant it is not possible for somebody to only setup that plant. Second is the sourcing strategy, you need to be clear about the sourcing of the raw material and the final product and third it is up to certain extent the margins remain in a range and fluctuation is there because of the semi-community nature, but you have seen in the last six to seven quarters with a lot of stability in the IGPL performance because we are able to diversify and the usage of the phthalic has gone beyond 5 to 10 industry, now it is more than 20 industries we are supplying.

**Dhaval Shah:** So, that means largely you mean that margin should remain sustainable?

**Pramod Bhandari:** I am saying right now margin is around \$200 to \$250, but we believe that this is the fair range because in last 10-year average the margin is between \$200 to \$250 and this higher demand and increased usage we expect the margin to remain at similar level.

**Dhaval Shah:** Thank you Sir.

**Moderator:** Thank you. We have the next question from the line of Dhanush Mehta from JM Financial. Please go ahead.

**Dhanush Mehta:** Sir, I have a couple of questions, my first question pertains to that we mentioned that the industry usage is widely spreading and now we are catering to almost 20 industries, so which industry is showing maximum traction and through which we can not only have some margin comfort but even sales comfort?

**Pramod Bhandari:** So I think let me attend to your second question first, I think in phthalic sales is not a challenge it is always about the pricing, if you are able to get a better realization because



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India is deficit, in any case sales is going to happen because all the industries who are using the phthalic, they need the phthalic, phthalic is a product used in paint, , where they use only 2.5% of the phthalic, but question is can we produce the paint without phthalic answer is no, so who are required phthalic they need to use the phthalic for the purpose of operating of their plants. First question which you asked is the usage, it has been paint, plasticizer and pigment were the three biggest industries, now we have seen lot of tractions from the UPR side especially the agrochemical, and a lot of specialty chemicals are coming up. Lot of chemical companies who were in a simple chemistry or normal chemistry they are getting into various specialty chemicals as the global corporates are looking for China plus one they wanted to diversify their supply base in terms of sourcing of chemicals and a lot of Indian players are getting into different chemistry they all needs phthalic, so for us the area which is doing very well is the paint plasticizer continue to grow because apart from Asian Paints, Berger Paints we have a lot of other paint companies are coming up in the market or started to going to have a production of paint, so paints will remain largely the best, second is the plasticizer. In terms of the new industry I think it is the speciality chemical, UPR and agrochemicals, these are the three emerging industries where the growth is very good and expected to remain very good.

**Dhanush Mehta:** Thank you for detailed answer. Sir, my other question pertains to that over the past 17 years you know phthalic and especially our company margins and earnings have been quite volatile, it is because of the industry nature and the commodity, so what has changed over the last few years or maybe few quarters that we are confident that not only spreads remain stable but maybe it is something to which we can see safety in margins as well?

**Pramod Bhandari:** Earlier I mentioned that it was a commodity chemical now it has become a semi-commodity because usage is not limited to paint, plasticizer and pigment like if you look at the speciality chemical company, agrochemical companies, the UPR companies, especially the film companies, they are getting into different, different chemistry where they have different margin scenario, when you are supplied to so diverse range of your industries and customers then your profitability need to be sustainable compared to depend on one or two industry that is number one. Number second for IG speciality when you have two plants, three plants, four plants all plants at a single location and they are completely integrated then you get the advantage of operating efficiency and your operating cost is much lower than compared to any other players that is second. Third is the diversification, we are looking for diversification, now we are getting into maleic, now getting into DEP where there have been other opportunities also to diversify into other downstream specialty chemicals. So as we diversify you see much and more stability in the earnings. First the change in the nature of the phthalic commodity to semi-commodity, second is the diversification, and third because of the wide usage of the phthalic by the various industries



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that has given us a confidence that fairly all the margins, which we are looking at, if you look at, at least for last six quarters we are generating more than 50 Crores PAT not one quarter, last six quarters consistently that is the testimony of the fact that there is a sustainability in the margin now.

**Dhanush Mehta:** Thank you, Sir and just I would want to ask you one last question; can you throw some light on the competition, so any new capacities that you see are coming up?

**Pramod Bhandari:** IG is setting up 53000 ton, I understand that Thirumalai chemicals (inaudible) 26:06 is also setting up around 80000 to 90000 ton, which will be online by next two to three years, and one new player I heard that KSA is also setting up, but I think that capacity mostly inhouse because they consume 100000 ton they are setting up 80000 tons that would be inhouse, now today Indian demand has crossed 5 lakh tonnes it is going at 7% to 8%, every year need 50000 to 60000 ton of the new capacity and since the usage have gone up beyond 400 to 500 inhouse 10 to 15 to 20 industries so we continue to see the growth in line with the GDP because of slightly higher than GDP growth. Second India today is also deficit by 1 lakh, we together produce around 320000, 330000, India demand is 500000 ton and you need to reduce the export which we are doing. Then India is today deficit by 150000 ton, whatever new capacity is coming online in the next three to four years by that time you will see the demand is crossing 600000 to 650000 ton, so India expected to in the next four to five years remain deficit of this product, there may be some time when it may be equivalent to, but I expect that it remains deficit till 2030.

**Dhanush Mehta:** Sir, can we grow by let us say more than 25% for the next five to six years?

**Pramod Bhandari:** So, right now I will not be able to comment on that specifically because right now PA5 is under implementation and we evaluated three projects, if we are able to implement out of three two then we may be going for the next five to six years 20% to 25% and IGPL is in very strong position today, we have cash on the balance sheet as of March around 225 Crores cash, we are net debt zero company and sufficient cash is available to fund our expansion project.

**Dhanush Mehta:** Thank you Sir for the detailed answer and wish you good luck for the coming quarters and hope we meet the numbers as you have shared with us.

**Moderator:** Thank you. We have the next question from the line of Aditya Khetan from SMIFS Limited. Please go ahead.

**Aditya Khetan:** Thank you for the opportunity. Sir, my first question is on the non-phthalic anhydride business front, so for this fiscal there was 120 Crores of revenue, but if we look at the



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number so roughly around 50 Crores to 60 Crores of this number was from the maleic anhydride realization?

**Pramod Bhandari:** Yes, you are right, 100 Crores plus was on maleic.

**Aditya Khetan:** Right, so suppose if this has been normalizing and DEP goes up for the next year, so what could be the sustainable number for the non-phthalic anhydride business we can see for FY2023 and FY2024?

**Pramod Bhandari:** Based on the today's production and based on the today's operating plan, it will be between 100 Crores to 150 Crores annualized basis.

**Aditya Khetan:** 100 Crores to 140 Crores?

**Pramod Bhandari:** Yes.

**Aditya Khetan:** This can be maintained so 120 Crores suppose if there is a dip in the maleic?

**Pramod Bhandari:** Let me explain you because today we have one DEP front only 5 Crores, DEP is expected to grow to 70 Crores to 75 Crores, if you add that it will be coming around 160 Crores to 170 Crores even if the maleic number goes down by 10 Crores to 20 Crores it will remain between 130 Crores to 150 Crores that is the reason I have given you the range.

**Aditya Khetan:** Correct, so this number would be maintained for the next two to three years?

**Pramod Bhandari:** Correct.

**Aditya Khetan:** Sir, second on the expansion front in the PA5 expansion what we are doing are we adding a new ETP plant also for that?

**Pramod Bhandari:** Along with the PA5 we have setup a ETP plant for all the five plants together we spend around 35 Crores on the ETP, which ensure that all PA5 plants are remain connected with the ETP and we remain zero discharge facility.

**Aditya Khetan:** Sir, third question is on the employee cost front, so for this quarter on a sequential basis there was a decline of 12% in employee cost, is there any specific reason or one off into that thing?



**Pramod Bhandari:** When you are comparing for the corresponding previous quarter at the previous quarter there was a settlement with some of the workers that has resulted into the higher cost, otherwise this quarter is a normalized cost for the company.

**Aditya Khetan:** Sir, one last question, considering for the next two years, apart from the DEP plant we would not be having any sort of volume growth on the phthalic anhydride and from the maleic anhydride apart from that we are sitting on top of the threads, so for the next two years what you see at the growth driver?

**Pramod Bhandari:** Growth driver will be two, first maleic anhydride we have just not reached to the potential of our capacity, we are around 20% lower than our capacity, and so that is the chance for us to improve the maleic capacity and maleic production. Second the DEP we have just clocked 4 Crores to 5 Crores for the last year because it has just started recently, so it will grow up to 60 Crores to 70 Crores, then we are also looking for debottlenecking for the DEP, which will increase the capacity from 8400 to 13000 ton, so that can add another 60 Crores to 70 Crores, but that is under evaluation, we will do it at some time, it will take some time.

**Aditya Khetan:** Correct, Sir but for the next two years so these 400 Crores of EBITDA could be sustained, so considering the spreads go down and there is no volume growth on the big business on the PAN and maleic anhydride so still this EBITDA figure of 400 Crores can be sustained for the next two years?

**Pramod Bhandari:** Yes, it is 100% because we are expecting right now like margin is between around 200 and 250, if it remains in the same range we will be having 50 Crores plus PAT consistently, so this gives you the EBITDA between 350 Crores and 400 Crores.

**Aditya Khetan:** Sir, one last thing, what is your bases of saying this phthalic anhydride as a semi-commodity still we are witnessing that the prices are quite volatile and the end users also are quite diversified, so what makes a case for semi-commodity kind of?

**Pramod Bhandari:** I will tell you that. when we look at there are only two to three segments we are catering around 70% to 80%, today our more than 30% to 40% of products goes into the industries which we were not supplying to, since it has gone into the specialty chemical, agrochemical, specialty films and lot of other chemistries in engineered plastics, electric vehicles, electronic components the list has been quite big so because that diversification happens in terms of the overall players and diversify in terms of the number of players we are supplying to that has given us a confidence that now we are not depend on one or two industries since we are supplying to so many industries it gives us a confidence to sustainability of the margin because every industry is making different margins, paint



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margin is different than plasticizer, especially the chemical have a different margin, agrochemical have a different margin, so we needs to look at some of the industries which we are supplying to, if we are supplying to so diverse industries whether one industry have a bad time or good time it does not naturally have a direct impact on the company profitability, we are able to manage price and the margin in a better way compared to when you are dependent on one or two industry that is why I am saying that it is not a commodity chemical it is a semi-commodity chemical.

**Aditya Khetan:**

Sir, just contra point if I can give you, now the endusers have diversified, so do not you think that actually does not count under the speciality designation because the specialty application which is used for only one set of enduser industry whereas you are talking that the enduser industries have been diversified, so that makes it as a more commodity thing?

**Pramod Bhandari:**

No, because I can tell you today I think 70% of the speciality chemical in India we supply our product that is sufficient to indicate how diversified become now, diversification is not because of the fact that you are supplying to one or two, yes, the speciality chemical company I do not mean to say that we are supplying to, I mean to say they get into lot of new chemistries where they need this chemical. In that sense when we are applying it to them and once you get into a new chemistry then you need phthalic anhydride as a derivative or intermediate on a consistent basis. Suppose somebody setting up X plant for some product, which is engineered plastics in their mind 20% to 30% of the phthalic of that plant requirement, then it is forever, so as you go in your speciality chemical business and new chemical and once you start using that the question is once you start using that can you stop, no, once you start using that then it will be a cumulative effect on the overall demand of the chemical that is the reason I am saying it will diversify and consistent diversification we have seen.

**Aditya Khetan:**

Got it, just one more last question if can squeeze in, on the topline front, so definitely in this quarter the revenue has gone up by 20% on Y-o-Y basis, so this was largely led by the increase in the PAN realization because of the Russia-Ukraine war has started in the mid of February and from there all the commodity prices have started to shoot up, so current PAN prices what we were witnessing that was around Rs.100 to Rs.105 a kilo, so what makes you think that so this PAN prices could be sustained or can it go back to its previous levels of Rs.80 to Rs.85 a kilo where they were?

**Pramod Bhandari:**

Let us look at from that point of view, we are not worried about whether PAN prices are 100, 105 or 110, we are just looking at the margin even if the PAN prices are 80 and our margin remain \$200 to \$250 then we are okay because we always look at the revenue from the point of view of the margin because the prices are higher the margin looks low, so we



are always looking at the margin point of view, if we are able to have a margin of around \$200 to \$250 profitability will remain intact even if your revenue say 1600 Crores, but PAT remains higher than 200 Crores we are fine with that because ultimately we need to look at the margin, it is all chemical, for petrochemical companies their revenue are linked with the crude derivatives because ultimately OX and phthalic is also crude derivatives, so if the prices gone down we are not worried about that, so long as margin remains intact we are able to sustain this type of margin.

**Aditya Khetan:**

Thank you Sir. That is all from my side.

**Moderator:**

Thank you. We have the next question from the line of Yogesh from Arihant Capital Markets. Please go ahead.

**Yogesh:**

Thank you for taking my question. My first question basically is there is an increase in other expenses, just to confirm is this related to the shift in the catalyst cost because of that?

**Pramod Bhandari:**

It is change in the catalyst which resulted into the two, first repair and maintenance cost and second is the fuel charges because when you take the shutdown for the change in catalyst then you need to use fuel which is the fuel oil and the diesel for that as you know the prices are at all time high so that has resulted into the extra expenses.

**Yogesh:**

Approximately what would be the contribution of the changes in the catalyst will they increase in expenses for the quarter?

**Pramod Bhandari:**

When the catalyst is changed the cost is divided into the period of three years in line with the life of that, but the few charges are debited directly to the P&L, so if total cost which has gone into the P&L is 10 Crores to 12 Crores for the quarter.

**Yogesh:**

Sure, and the other one is like there is a slight increase in the effective tax rate for the quarter, so any reason for the same?

**Pramod Bhandari:**

It is just because of the some of the investments in the treasury we have done that is taxed at a different rate that is the reason; otherwise our effective tax rate for the business operation remains intact at 25%. There are some investments which we have done that has around 35% to 40% interest tax rate especially for these investment option that is why the rates looks to be different otherwise it is 25%.

**Yogesh:**

Sure, third one basically is that the new PA plant will be coming in around March 2024, so how much time does it take to reach full capacity?



- Pramod Bhandari:** Around two to three months that is what our historical rate.
- Yogesh:** How much capacity can we increase through debottlenecking?
- Pramod Bhandari:** Debottlenecking of you are talking about MAN?
- Yogesh:** Yes, for the next year we had a target of debottlenecking.
- Pramod Bhandari:** Right now we are looking for phthalic capacity to increase to 275 from 222, maleic capacity will increase from 7600 to around 9000 around 1500 to 1600, benzoic acid from 1000 it will go between 1200 to 1300 and the DEP capacity which is roughly 8400 ton today it may increase to 10000 to 12000 ton, but that decision is yet to be taken by the management, I am saying there are chances we can go for debottlenecking, we have not yet decided to take the debottlenecking but there are options available to do the debottlenecking and this is the capacity, we are in a process right now to set up and establish the market for the DEP with the specialized type of DEP which we are producing once it is setup then we will go for the debottlenecking.
- Yogesh:** Sure, that is all from my side. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.
- Priyank Chheda:** Sir, my first question is on if you can share volumes for the Q4 for PAN and MAN both?
- Pramod Bhandari:** Generally, we do not share the volume, I can tell me that we are operating at 92% capacity and accordingly you can calculate the volume and generally we do not share the volume.
- Priyank Chheda:** Q4 it was at 92% utilization including the shutdown that we undertook, right?
- Pramod Bhandari:** Correct.
- Priyank Chheda:** Sir, just wanted to understand one clarification so on EBITDA spreads, which you mentioned, which you explained it very correctly, are we generally saying for PAN and maleic both?
- Pramod Bhandari:** No, because when the phthalic anhydrides you are looking at then you have the revenue from them and then there is a raw material then you can calculate the margin. In maleic which is generated from the wastewater, so whatever is the maleic sale except 1 or 2 Crores directly transitioned to EBITDA because there is no raw material for the maleic anhydride,





so there will be huge difference between the phthalic EBITDA and maleic EBITDA we do not calculate a product wise EBITDA, but that is the standard format because in maleic what are the revenue 95% to 96% is that EBITDA.

**Priyank Chheda:** Right, so just to again for my understanding so the EBITDA spreads which you mentioned about \$225 to \$250 per ton is that a blended EBITDA, which we should consider this, which includes maleic sales also?

**Pramod Bhandari:** It includes phthalic, operating efficiency, maleic all put together.

**Priyank Chheda:** Given the diversification and the increase industry demand across PAN are we witnessing the structural shift in the spread that you make in PAN maybe going ahead and considering the fact that you are already operating at optimal utilizations and there is no supply that is coming up, so do we have a scenario where the spreads are likely to go higher now?

**Pramod Bhandari:** I think it is not correct to predict about the spread directly for the quarter-to-quarter, but on a range for the last 10 years average it was between \$200 and \$250 per ton.

**Priyank Chheda:** So, we wanted to maintain that similar type of spread?

**Pramod Bhandari:** We can always give the quantity at what quantity we are going to have 90% to 92% capacity utilization for both phthalic and maleic plants.

**Priyank Chheda:** Sir, like the spreads of the last decade right, that is an average, but the industry structure and the demand like you mentioned has undergone a significant change huge diversification happening within your product basket and also from China plus one demand?

**Pramod Bhandari:** That is in terms of the customer base, customer base has been quite diversified in the last two to three years, usage have gone up to various downstream industries like speciality chemical, commodity chemical, UPR and lot of other new chemicals.

**Priyank Chheda:** When you very explicitly mentioned about the industry demand for PAN, just wanted to understand the total demand that is available for maleic and my understanding is total demand would be around 10000 ton for India?

**Pramod Bhandari:** Total maleic demand is more than 18000 ton, we produce roughly 7000 to 7500 ton, and 72000 ton is imported by India.

**Priyank Chheda:** We are the only player who is incrementally adding some capacity otherwise everything is imported?



- Pramod Bhandari:** We are the only player who is producing in India, there are other players who produce outside India and import that, apart from IG there is no other player who is importing this, and there is no other player who is manufacturing the maleic in India.
- Priyank Chheda:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Marsal Louis (inaudible) 46:18 from Swashtika Investment. Please go ahead.
- Unknown Speaker:** My first question is that as you mentioned that DEP contributes more than 4 Crores to 5 Crores, so next year it will be expected to be 60 to 70 Crores, so I want to ask that whether we had stabilized the production of DEP so that we can do around that of approximate per month from April 2021 onwards?
- Pramod Bhandari:** Yes, we have stabilized that, your understanding is correct and that is why we are saying it will be between 60 Crores to 70 Crores.
- Unknown Speaker:** What kind of EBITDA we are looking at on the DEP?
- Pramod Bhandari:** Between 10% and 15%.
- Unknown Speaker:** Sir, my second question is our receivables have increased by Rs.148 Crores so why is a quantum jump I hope that if it is all good then by now it must have been recovered, already received collected or is there any chance of bad debt?
- Pramod Bhandari:** So, let me explain you why the receivable has gone up, first our total quantity of the products which we are selling has gone up number one, number two the value typically we were selling between Rs.16 and Rs.18 per kg now we are selling between Rs.110 and Rs.120, the value of the same product has gone up by 30% to 40% number second, number third some of the key customer for incremental value we have provided the credit facility, however, we can discount it at any point of time, so that is not a challenge, so that is the reason you are able to see the higher one, when we are talking about all the receivables has been realized and IGPL maintained the history of zero bad debt for the last 20 years.
- Unknown Speaker:** With respect to EBITDA like also we are constantly maintaining around 100 Crores but if you compare with the last year corresponding quarter it is down by about 25%, so what kind of EBITDA we are looking for the coming first quarter?
- Pramod Bhandari:** Compared to the last quarter corresponding.



**Unknown Speaker:** Let me repeat, March 2021, our EBITDA was 135 Crores and now we have 100 Crores so it is less by 35 Crores, which is approximately 35%, I am asking what kind of EBITDA number we are looking for the June quarter?

**Pramod Bhandari:** Let me explain you. First the Q4 FY2021 versus Q4 FY2022 is not strictly comparable because in Q4 FY2022 we have taken a shutdown, so that will give you the production of phthalic and the revenue of maleic is also not added plus there is extra expenditure of the fuel oil, diesel, and repair and maintenance goes into the overall expenditure that is number one and number two the Q4 FY2021 there was absolutely incredible high margin because the COVID has just over and there was an extraordinary demand for one or two months so that is the reason when you look at Q4 FY2022 it is extraordinarily 100 Crores PAT, these are the two reasons. Answering to your second question we are expecting to maintain the similar type of production going forward in the June quarter I will not be able to give you the profitability guidance, but in terms of the volume it will be slightly better than the Q4 because there is no shutdown plan.

**Unknown Speaker:** Although we are net debt zero company, but like if you see finance cost we are still paying about 30 Crores to 40 Crores, so what kind of effective rate we are paying for our borrowing and how much income we are generating from our investment in percentage wise?

**Pramod Bhandari:** So, first you should not see the finance cost on standalone basis because finance cost is a result of the overall funding you have obtained and the rate you are paying. The next year when you see the next quarter we will see, we have done lot of investments during the March quarter, our total net cash and investments on the balance sheet as on March 31, 2022 is 225 Crores maybe 1 or 2 Crores plus or minus. We have raised the 220 Crores debt on the 220 Crores tie up for the PA5 we have only taken the loan of Rs.50 Crores effectively our cost of debt including the PA4 debt is effectively between 4% to 5%, while in the treasury income we are generating 7% to 7.5% later.

**Unknown Speaker:** That is very good, Sir and Sir, like this PA5 plant which I think you are implementing now like is there any re-scope, any delay in terms of the commitment time or any cost period escalation?

**Pramod Bhandari:** First, in terms of timing I think March 2024 is fairly considering we have taken a buffer of three to four months, in fact our target is to get it completed by December, but I think for all communication we are very clear we have mentioned March 2024. In terms of the increase in the product cost since we have given order for most of the equipments, which is to be imported so there is hardly any variation is expected in the overall project cost, if same project we are implementing in the Greenfield it will cost to 600 Crores.



**Unknown Speaker:** Sir, what is about this forex hedging I am sure that there is adequate forex hedging has been done, is now really going downwards in terms of any imported equipments?

**Pramod Bhandari:** Let me explain you how it works. All imported equipments are paid in euro, IGPL sell around 15% to 20% of products in export market and our revenue is in export number one, number two all the domestic products are linked with the existing exchange rate, if the rate goes from say 75 to 80 we will price our product towards domestic customer based on the hedging because our raw material is directly linked with the foreign exchange, so whatever EBITDA we are making in our balance sheet is a dollar as EBITDA, with that extent we are not impacted and all our exports are 100% hedged.

**Unknown Speaker:** Very good, Sir, my last question, we have seen IGPL from the time of 1991 or maybe early and whatever time now only one this my experience and suggestion that I am sure that our plant is adequately insured in terms of all possible risks because it is a very complex plant, I have seen that like how the company has come like that for the last 20 to 25 years I have been watching it very keenly, , so my humble submission that I am sure that all possible potential risk maybe like any flood is a very common because you know that insurance company are very, very notorious in terms of not to give any claim, so how frequently you are doing the risk audit to make sure that all possible kind of a coverage is included in our policy?

**Pramod Bhandari:** Just for your information IGPL entire complex is fully ensured and secured not only for the normal policy but also for the loss of profit also and all the policies whether it is a marine policy, stock policy, everything is adequately taken, do not worry about that.

**Moderator:** Thank you. We have the next question from the line of Mansal Shah. Please go ahead.

**Mansal Shah:** Good evening, Sir. This is with regards to usage of PAN, wherein you have mentioned that it is moved on from paint and plasticizer and almost 30% to 40% is now to other sectors actually, so just wanted to know whether this is manufacturer like or this is led by the end users?

**Pramod Bhandari:** It is led by the enduser.

**Mansal Shah:** So, you mean to say that the endusers are approaching PAN manufacturers to supply PAN?

**Pramod Bhandari:** No, I will explain, so today when we are supplying it to paint, it is Asian paint, Berger Paint, plasticizer, there are two to three companies, now there are a lot of speciality chemical company, agrochemical company, speciality UPR company, specialized engineered plastics company they are approaching and they become our customer, they



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started with very small quantity then gradually once they increase the production they increased the sourcing of PAN from IG Petrochemicals that all happen is because lot of guys in the global market are looking for China plus one in terms of the diversification of their supply so that is the reason a lot of companies get into the different, different chemistry.

**Mansal Shah:** So my question was are they approaching you or you are approaching them that this is phthalic anhydride it can be used in your process also?

**Pramod Bhandari:** It is a combination of both, but generally the demand has come from the company.

**Mansal Shah:** So they approach you that you supply PAN?

**Pramod Bhandari:** They need there.

**Mansal Shah:** Obviously, so they need PAN and they were already using imported PAN and since it was not available imported now they are approaching domestic PAN?

**Pramod Bhandari:** No, they were not using PAN at all historically, now they are getting into the chemistry where they need that.

**Mansal Shah:** Has PAN been substituted from other chemical or it has been used indigenously in this process?

**Pramod Bhandari:** It has not substituted any other chemicals.

**Mansal Shah:** So, in that scenario would that assumption be truth that as the usage of these industries increases your realizations and margin should also increase significantly?

**Pramod Bhandari:** I think rather than putting an increase in the margin I am saying it is fairly essential that if your profitability and margin remains sustainable at the similar level.

**Mansal Shah:** So in that scenario it is better to assume that the volatility in margins would reduce significantly?

**Pramod Bhandari:** Correct, that is the reason I was mentioning in the start of the call.

**Mansal Shah:** It can only increase subject to demand supply mismatch okay otherwise it can remain stable?



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**Pramod Bhandari:** Correct, because in domestic market demand is very high and in global market also because the usage of phthalic per se in the global market has gone so diversified that there are only a handful of supplies are there in the international market.

**Mansal Shah:** Sir, would the realizations to these new players higher than paint and plasticizer or it would be similar?

**Pramod Bhandari:** So I think they have not shared the data in general, they have a very stable and higher realization compared to the historical one. I am not comparing with the paint because paint is the best.

**Mansal Shah:** So should you get higher realization in case of paint?

**Pramod Bhandari:** No, I am not talking about my realization.

**Mansal Shah:** See, we are not discussing about IG sale I am talking general industry.

**Pramod Bhandari:** It all depend upon the type of chemical they are manufacturing, if somebody is manufacturing a chemical which he has a monopoly nobody else is manufacturing you will get better price, if somebody is manufacturing chemical which is having three to four players in the market you may get a reasonable margin, so all depend upon the type of chemistry because they never came up to us and share the chemistry that is what we are using for, we never do this because they are trade secrets.

**Mansal Shah:** Sir, really appreciate this. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Dhanush Mehta from JM Financial.

**Dhanush Mehta:** Sir, one of my questions just got answered, just a last thing, if you could throw some lights on, in the last few years we have seen a lot of chemical companies going into chemistries like fluorination, ruminant, hydrogenation, etc., so is our products finding usage in those chemistries as well?

**Pramod Bhandari:** I cannot tell you whether they are using it or not, but I can tell you that lot of guys are buying where they are using, they are really not keeping a time on that because lot of specialty companies are buying where they are using we generally do not ask for this, generally they do not share their chemistry where they are using it, but we know certainly that there are guys who are using it for specialty chemical, they are using it for engineered plastics that is all we are aware of that, I think the ultimate user is lying with them and that



is I think their trade secrets they know only with themselves, they do not share with any other company.

**Dhanush Mehta:** Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Dhaval Shah from Svan Investment. Please go ahead.

**Dhaval Shah:** Sir, just one question followup, so in FY2024 once our gross book is done with so at full utilization our actual sales volume what we sell outside will be what, so in PAN it will be 275000, am I correct?

**Pramod Bhandari:** Correct.

**Dhaval Shah:** Then MAN will be 9160, DEP will be debottlenecking whatever you do maybe 10000 to 12000 final capacity and benzoic will be around 1300, am I right?

**Pramod Bhandari:** Correct.

**Dhaval Shah:** So, this will be the actual what we will be selling outside?

**Pramod Bhandari:** Correct.

**Dhaval Shah:** Assuming the current industry scenario in terms of demand supply stays as it is, so what EBITDA per ton we did at a company level versus what we will do in FY2025 once everything is fully utilized, will that be higher or at the same level?

**Pramod Bhandari:** I think there are two ways to look at that, first we can always give you guidance about what is the production, but to say that what will be there in the margin in 2025 I think it is too early to predict, but generally because of the multiple uses by the industries of the phthalic we see the phthalic demand continue to go between 6% and 8% and higher also depend upon the UPR usage in India so it is fairly correct to assume around \$200 to \$250 is the industry margin and then whatever IG is making because of operating efficiency byproduct you can add and then calculate.

**Dhaval Shah:** Agreed, but this year assuming the industry at the current level of demand supply assuming that there is no impact on the pricing and the margin, but given our changing product mix, change in the applicant and application, so I am trying to understand in that angle?

**Pramod Bhandari:** That angle will give you more sustainable and continuity in the margin.



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**Dhaval Shah:** Fairly more stability to the margin?

**Pramod Bhandari:** Correct.

**Dhaval Shah:** Thank you.

**Moderator:** Thank you. I now hand it over to the management for the closing comments. Over to you Sir!

**Pramod Bhandari:** My dear friends India is currently a net importer of phthalic and maleic anhydride and importing around 20% to 25% of phthalic and around 85% of the maleic. As you are aware there is ample room for the import substitution with our additional capacity and technical expertise there will be positioned to capitalize on this product. We have added a new product to our portfolio like DEP which will further help us to reach out to the new clients and the new industries. With this I would conclude this call. If you have any questions, please get in touch with our investor relations advisor SGA. Thank you very much for joining us today on the earning call. Have a nice day. Thank you.

**Moderator:** Thank you. On behalf of IG Petrochemicals Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.