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By online submission

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To,
The General Manager,
Department of Corporate Services
BSE Ltd.
1st Floor, New Trading Ring,
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Mumbai-400 001
BSE Code: 524370

To,
The General Manager,
National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (E), Mumbai-400 051.
NSE Code: BODALCHEM

Dear Sir /Madam,

Sub: Transcript of "Bodal Chemicals Ltd Q2FY21 Earnings Conference Call"

We enclosed the transcript of Q2FY21 Earning Conference Call with Investors and Analysts which was held on November 12, 2020

Kindly take the same in your records.

Thanking you,

Yours faithfully,
For, **BODAL CHEMICALS LTD.**

Mayur B Padhya
Chief Financial Officer
Encl: As Above.



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“Bodal Chemicals Ltd Q2FY21 Earnings Conference Call”

November 12, 2020



**MANAGEMENT: MR. ANKIT S PATEL – EXECUTIVE DIRECTOR, BODAL CHEMICALS LTD.
MR. MAYUR B. PADHYA – CHIEF FINANCIAL OFFICER, BODAL CHEMICALS LTD.**

Moderator: Ladies and gentlemen, good day, and welcome to Bodal Chemicals Limited Q2 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Patel, Executive Director, Bodal Chemicals Limited. Thank you, and over to you, sir

Ankit S Patel: Thank you very much. Good evening, everyone. Thank you for joining Q2 FY'21 Conference Call of Bodal Chemicals Limited. I have our CFO – Mr. Mayur with me as well on the call.

I hope all of you have got an opportunity to see our “Financial Results” and “Earnings Press Release”, filed with the stock exchanges and are also uploaded on our website.

First, I will highlight our “Expansion and Diversification Plans and Business Performance for the Quarter.” Detailed Financial Performance will be taken up by Mr. Mayur later.

We are glad to announce diversification into Specialty Benzene downstream products and expansion of Sulfuric Acid and Derivatives at Saykha GIDC, Bharuch, Gujarat. These projects will open new growth areas for the company as we intend to further expand our Specialty Chemicals product portfolio in the future. The capacity of Benzene downstream products will be 55,000 tons per annum which will include products like MCB, PNCB, ONCB, MNCB, DNCB, PNA, 2,4 DNCB, etc., The capacity of Sulfuric Acid and Derivatives will be 3.4 lakh tons per annum which will include Sulphuric Acid, Oleum 23%, Oleum 65%, Liquid SO₃ and Chloro Sulphonic Acid. We will set up an integrated product chain, which should lead to cost efficiency, better productivity, and higher margins for the company.

The company intends to start the project by end of January 2021, and it is expected to get completed by end of September 2022. Total cost of the project, including one-time infrastructure cost will be around Rs.345 crores. Out of that cost of Benzene downstream products will be around Rs.165 crores, and cost of Sulphuric Acid and Derivatives will be around Rs.125 crores. At peak utilization, the company expects these two projects to generate revenues of around Rs.400 crores with EBITDA margins at current rate should be in the range of 16% to 18%. Bodal intends to use internal accruals of Rs.100 crores per year. Rest will be funded by term loans.

The quarterly business scenario improved in Q2FY21 in terms of better demand, higher utilization of plants and more dispatches after the lockdown impact in Q1. We expect demand scenario for our products to improve further in coming months as the domestic as well as global economies have started opening. During Q2 FY'21, the average price of Vinyl Sulphone was around Rs.159 per kg and H-Acid was around Rs.346 per kg.

Our total production for Q2 stand-alone was 65,000 tons per annum, which was 2% higher year-on-year with Dye Intermediates, Dyestuff and Basic Chemicals, including Thionyl Chloride utilization at 82%, 44% and 97% respectively.

Production of our Liquid Dyes have improved recently with utilization of around 40% in Q2 due to the increased demand from paper and textiles industry. We expect utilization levels of Dyestuff Powder segment to improve gradually in second half of FY'21 as demand scenario is improving.

On the subsidiaries side, we have started the production at Trion plant from September 2020 and utilization levels are improving gradually due to high demand of the product in the US. At SPS, we are planning to start the VS plant very soon, which would add to profitability in this year. At Sener, in Turkey, dispatches have improved to around 200 tons per month in Q2 which was around 80 to 100 tons per month, a month earlier. We expect monthly dispatches to improve to around 300 tons per month at Sener. We are targeting all the subsidiaries to add to profitability from second half of FY'21 onwards.

Also, we are confident that all the other facilities in which we have invested in the last few years are underutilized currently like Dyestuff capacity, Trion Chemicals, and upcoming VS plant at SPS will have higher utilization gradually and add to profitability in coming years.

Thank you. And I would now request Mr. Mayur to take up the "Financial Performance in Detail."

Mayur B Padhya:

Thank you, Ankit bhai. Good evening to all. On the "Quarterly Financial" front, our standalone total income increased by 11% year-on-year to Rs.2,898 million in Q2 FY'21. Standalone EBITDA including other income stood at Rs.316 million, which improved by 13% year-on-year. Our finance cost in the Q2 FY'21 declined by 47% year-on-year to Rs.18 million due to decrease in debt and decline in rate of interest. Profit before tax increased by 26% year-on-year to Rs.234 million. Profit after tax for Q2FY'21 stood at Rs.175 million. Our exports were Rs.1,005 million, and its share in total revenue was at 36% in Q2 FY'21.

On the subsidiary front, SPS posted revenue of Rs.320 million with loss of Rs.8 million in Q2 FY'21; Trion posted loss of Rs.34 million in Q2 FY'21 and Sener posted loss of Rs.9 million. As Ankit bhai said earlier, we are targeting the performance of all our subsidiaries to improve and add to profitability from H2 FY'21 onwards.

During Q2 FY'21, inventories levels came down to Rs.1,541 million from Rs.1,855 million in Q4 FY'20 and trade receivables come down to Rs.2,238 million from Rs.2,942 million in Q4 FY'20, leading to improvement in working capital. Our short-term debt also came down to Rs.951 million in Q2 FY'21 from Rs.1,612 million in Q4 FY'20. We are committed to maintain our leverage ratio going ahead.

Thank you. And now I open the floor for question-and-answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aditya Khetan from East India Securities. Please go ahead.

Aditya Khetan: Dye Intermediates prices are still at the level which they were in Q1 FY'20. Why are the Dye Intermediates prices similar to the levels of the last quarter, has there been not much improvement in demand here?

Ankit S Patel: The current prices of the Dye Intermediates, H-Acid and Vinyl Sulphone have increased; so the price of H-Acid currently is around Rs.390 to Rs.400; and Vinyl Sulphone is around Rs.190 to Rs.195. So with that good demand that has developed in the last couple of months, the prices have already reached good levels, and raw material prices are still on the lower side

Moderator: Thank you. The next question is from the line of Avishek Datta from Prabhudas Lilladher. Please go ahead.

Avishek Datta: Sir, I just wanted to check how is the competitive scenario right now especially from China how are we faring like how the competitive intensity from China?

Ankit S Patel: Current period you can compare it more to a couple of quarters that were there before the lockdown. So I would say there is no any extra material that is coming from China. Things have really normalized where there are actually opportunities to export some materials to China as well. And in terms of competitiveness, I think Indian manufacturing cost definitely now has edge over the Chinese cost.

Avishek Datta: And in terms of Chinese production themselves, has there been any more environmental restrictions over there leading to more disruptions which you have seen?

Ankit S Patel: No. I do not think such kind of any large development has taken place in China in last I think three or four quarters. In our first or second quarter, the main focus was on COVID-19, and currently also I think we have recovered much better than the rest of the world. But still I think central focus should be there on reviving of the economy and this COVID-19 scenario. So, I think things have really now balanced, and no large any events of that nature has happened in China that I know about

Avishek Datta: What is the total CAPEX you are spending for these projects which you mentioned?

Ankit S Patel: The total CAPEX that we are doing is Rs.345 crores.

Avishek Datta: And that can lead to revenues of Rs.400 crores when it is fully commissioned?

Ankit S Patel: Yes, Rs.400 crores. But many of the products will be used internally. Because of the integration and captive use, that is why the top line number, the turnover number is only Rs.400 crores.

Avishek Datta: And all these projects will be commissioned by next September?

Ankit S Patel: Yes, 2022 September.

Avishek Datta: How do you see the downstream demand for your products right now?

Ankit S Patel: I think demand has really improved and reached 85%, 90% level. It is a very comfortable time right now because the prices are at comfortable levels, most of the raw materials are also still at low levels and demand is also picking up from all the areas. So not just domestically, but export also has opened up, and there are no orders or issues now to do the business.

Moderator: Thank you. The next question is from the line of SS Nath as an individual investor. Please go ahead.

SS Nath: Sir, I would like to enquire how Thionyl Chloride pictures in any of your forward or backward integration efforts, do you use it in your products, and if so, what percentage?

Ankit S Patel: So Thionyl Chloride, the largest product that is there in our portfolio is Vinyl Sulphone, which contributes largest in terms of top line. So Thionyl Chloride is one of the raw materials that is required to produce Vinyl Sulphone. And we are one of the largest consumers of Thionyl Chloride. So our plant is situated at Baroda, which is our integrated complex where we have basic chemicals, intermediates, dyestuff, everything. And we set up the plant more than a year ago, and the plant capacity is 3,000 tons per month, and captive, we use around 800 to 900 tons per month. So we have around 30% captive use. And now Thionyl Chloride business is also doing well, capacity utilization has reached more than 85%, 90%.

SS Nath: I believe most of these chemicals are hazardous in nature. Being one of the largest producers around in India, could you just help me understand what kind of precautions are covered our company has in case anything goes south with respect to handling I am asking this because you have been working on Thionyl Chloride facility and safety concerns which is very commendable and a certain cost to the company, it is a great thing, but I would like to understand that.

Ankit S Patel: Like you mentioned, safety and the environment are two most critical things that we have to take care because of our manufacturing and because of all the chemicals that we use and produce. So obviously, after 32-years of our beginning, we have taken and we have treated these two areas very seriously. Fortunately, we have met with very, very few accidents in last 10-years. And not just at employee level, but we also have a director on board, who is specifically given this job to handle the entire safety area of the company.

Moderator: Thank you. The next question is from the line of Aditya Khetan from East India Securities. Please go ahead.

Aditya Khetan: Sir, on the Dye Intermediates prices I was asking, so they are at the similar level as in the last quarter. Any major reason for it?

Ankit S Patel: Dye Intermediates prices have already increased. So the current levels of the Dye Intermediates prices were two main H-Acid and Vinyl Sulphone; H-Acid price per Kg is Rs.390 to Rs.400 and the Vinyl Sulphone price is Rs.190 to Rs.195 per kg. So our Q2 average price was Rs.159 for Vinyl Sulphone, and currently, it is Rs.190 plus, and Q2 average price of H-Acid was Rs.346 which is currently Rs.390 plus.

Aditya Khetan: What was the similar Vinyl Sulphone prices in Q1? It is around Rs.160 per kg. Is this number correct, sir?

Ankit S Patel: Q1 price of Vinyl Sulphone was Rs.167 and H-Acid was Rs.350, that was the average. So we have already crossed the average prices of H-Acid and Vinyl Sulphone. Current prices are even more than Q3 FY20. So last year, when things were normal, the current prices were even better than that.

Aditya Khetan: And sir, in the presentation, you have mentioned that the Thionyl Chloride has seen an upturn in the demand scenario. If you can help us understand what is the reason for this demand uptick?

Ankit S Patel: Thionyl Chloride has applications into Dye Intermediates and Agrochemicals mainly and also some volumes in pharmaceuticals. So I think mainly because of Agrochemicals, Dye Intermediates also now running smoothly overall. I think that is the reason. I think the main reason was Agrochemicals because of great demand that was there for last couple of quarters. Thionyl Chloride demand has been very good.

Aditya Khetan: What is the rationale for putting up a capacity in Benzene Derivatives which is apart from our current chemistry, any rationale why to foray into a new chemistry?

Ankit S Patel: China has been the dominating player in this particular benzene products. So that is one reason. So the growth that China was doing in such products for the last 20, 30 years, that is not there. So we really feel that the opportunity is there. Plus applications of the product is that we are doing is mainly into agrochemicals, dye intermediates, some other colorants and pharmaceuticals. So those also tend to grow in India we feel. So I think the demand of Indian markets which should be very good for next couple of decades. That is one of the other reasons. And the third reason is the product that we are doing there are three products which we already use captively. So PNCB we have been buying from the major suppliers. Similarly, PNA also we have been buying since many years. And there is one more product that we are targeting to set up, which is NPDs which will be actually four-step integration for us. So we will produce MCB

from benzene and chlorine from which we will be producing PNCB and from PNCB we will be producing 2,4 DNCB, and then from 2,4 DNCB, we will be producing NPDs which we use for our dyestuff. And also, from PNCB in the second phase, we are also planning to set up a Paracetamol capacity. For that, we need this PNCB setup right now.

Aditya Khetan: So this Paracetamol capacity addition is included in the capacity expansion plan which you have outlined of Rs.450 crores?

Ankit S Patel: It is not part of that right now. We still have to get a clearance for that, and we also wish to first set up these raw materials of Paracetamol right now in this phase, and then in second phase we want to do Paracetamol.

Aditya Khetan: Sir, just a follow-up on the MCB part. So even Aarti is expanding their MCB capacity. So just wanted to understand, will there be a situation like an excess supply scenario in the industry for the MCB side?

Ankit S Patel: So MCB, we are planning to use captively 100%. I know that a couple of the companies are planning to expand and Aarti is already in the process of expanding, but we feel that definitely there has been a good gap between demand and supply in the last few years because the Chinese customers stopped the growth. So we feel that the demand is going to keep on growing. Indian companies will be able to cater. Aarti has become one of the largest in the world for this. So I think there is definitely room. And I think what should really be the strong point for us is that we are going to captively use about 40% of all the products that we will produce. And it also connects with our existing business model. So it will also support our existing business.

Moderator: Thank you. The next question is from the line of Gautam Kumar as an individual investor. Please go ahead.

Gautam Kumar: I just wanted this CAPEX which we are going to take up, how much of it is going to be funded by debt and at the end of the CAPEX, what would be our debt-equity ratio?

Mayur B. Padhya: We are planning to use about Rs.100 crores of internal accrual and balance requirement we will fill up with term debt. And at the end of project, our debt-equity can be 0.25 roughly, because our net worth is almost Rs.1,000 crores, and at that time, term debt if it is 250, then debt-equity will be around 0.25.

Gautam Kumar: SPS, in our earlier con-calls we were talking about converting all of it into Vinyl Sulphone and there were some hurdles earlier. Is that operational now fully?

Mayur B Padhya: No, we are yet to start Vinyl Sulphone plant over there. We were planning to start in Q1, but because of COVID, demand was low and that is why we have deferred that plan. But now we are considering, so within a few months, we will start production over there.

Moderator: Thank you. We have the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: My apologies, I joined just a little while back. So probably, this may be discussed earlier. Just wanted to know the diversification that we have planned in the benzene downstream products in terms of what are the plans about it, and what gives us confidence to put a CAPEX on that?

Ankit S Patel: So we have bought a large land parcel in PCPIR, which is a specific reason for chemicals, which is near Dahej. That was done more than a year ago. And we have been planning to set up an integrated complex with some specialty chemicals and some basic chemicals. So this is just part of that first phase. We also have environmental clearance for most of the products in place. For a couple of the products that we do not have, we will be obtaining that in a few months time. So that should not be an issue. And I already mentioned about why we want to go ahead with such combination of project. In basic chemicals, sulphuric acid and derivatives, we have a wide application range. All those products go into pharmaceutical, agrochemicals, specialty chemicals, basic chemicals, also some export possibilities are there. And those products are actually low price. So, they are in the range of Rs.5 to Rs.10 per Kg. So import substitutes is very difficult there. So with the growth that we are seeing in the chemicals sector in the next 10 to 20-years, I think the demand for such very basic and highly used chemicals will keep on growing every year. So that is one of the main reasons. Also, we already have one sulphuric acid complex at our Baroda plant, which is now more than 60%, 70% captively used. So with our growth also, we will continue to use more and more of sulphuric acid and derivatives. Second, on benzene products, is China a dominant player in this particular product mix? And we have been using some of these products since many years. So our volumes have been growing. So what we are trying to do is we are trying to integrate our new business model with the existing one. So, we are supporting our existing business model also which is the Dyestuff and Dye Intermediates model. And we also see a good opportunity in Benzene-based Specialty Chemicals where the demand should keep on growing, where China is the largest player again has early grown in last few years. So these are some of the main reasons.

Rohit Nagraj: On the benzene front are we targeting a particular industry or a sub-segment of the chemical industry application wise?

Ankit S Patel: Most of the products have wide application range. So for example, PNCB we use it to make intermediates and then we make dyestuff. From PNCB we can also make PNA, which directly is being used in dyestuff. There is another chemical that we want to produce, which is NPDs. For that also, we need this particular series where a three-stage integration we will do. And the fourth will be our new dye intermediates which we plan to set up. So I think most of the products have wide range. They also have export potential and all the raw materials are available very easily here in India. Plus, it is a solid margin business, traditionally, in last five years or last 10 years, margins have been very good and they are specialty chemicals.

Rohit Nagraj: Just again harping on the benzene one. So is it going to be a one stage or two, three stages of reactions, so initially nitration and then going in for further chemistry in terms of our internal consumption that you talked about, we have capital requirement as well?

Ankit S Patel: So all the reactions that are there, we already do that in our existing business, there are reactions like chlorination nitration, a couple of other reactions, so we already do that since many years. So it is nothing new for us. Thionyl Chloride is also a very similar project to MCB project. PNA also we have the knowhow of production. So, I think we should not have any challenges as far as setting up the project or we are not admitting any new chemistry or any new reactions. So, it should be a smooth execution for us and it should also happen on time.

Rohit Nagraj: And second question is on the Dyestuff. So currently, I think because of the demand slowdown for the entire year, the inventories have been high generally across the board. So, just wanted to know whether the dyestuff has any kind of expiry, and will that have an impact on the existing inventories and maybe from early next year onwards again the inventory restocking will happen and that will create incremental demand?

Ankit S Patel: One of the main reasons why dyestuff did not pick up for a few months after the lockdown was textiles. But our products also go into leather and paper. So we do not only depend on textiles. But obviously, textiles again is one of the large portion for us. But now I think textile has been doing well every few weeks, there has been better and better demand. That is why now dyestuff is also picking up very well. As far as the expiry of the product, there is nothing like that in dyestuff. Because historically, also, we have had large inventories in place, but that has never been a problem.

Moderator: Thank you. The next question is a follow-up question from the line of Aditya Khetan from East India Securities.

Aditya Khetan: Sir, in the Dyestuff segment in the Chinese market for the last two months, there has been significant price increase. So have we also taken similar amount of price increase in the Indian market?

Ankit S Patel: Yes. Like I said, H and VS prices have gone up by about 20%, 30%. So that effect has to be applied to dyestuff because there are very few integrated players who make their own intermediates. So there are more than 400 dyestuff players, but only about 10 players who make their own intermediates also. So the effect takes place immediately whatever up or down that happens in intermediates. So yes, the effect has definitely been passed on to the dyestuff prices also. So, I can say that the domestic prices of dyestuff has also increased.

Aditya Khetan: So can we assume a good improvement in the margins for the next quarter from the Dyestuff as well as from the Dye Intermediates, since the prices have increased now?

- Ankit S Patel:** Yes, definitely, we are targeting that.
- Aditya Khetan:** Also on the dyestuff, if you look at the end user industry which now since the textiles and leather demand has started to pick up, how you see this demand to remain sustainable for the next two to three years, or this is just a pent-up demand now, so post the festive season, are you expecting the demand to sustain for the next two to three years, just I wanted to know that?
- Ankit S Patel:** I think demand scenario has become now very stable and not just two to three years but as long as there is no second wave or something similar to lockdown that does not take place globally, I think there should not be any issue for the demand from textiles or leather segments. And because of this change in the lives, these days our paper dyes are actually doing better because of I think so much of online shopping, online groceries that is happening, so we supply a couple of particular colors that goes into packaging of these eCommerce ecosystem. So there, we see a good opportunity the volume to grow
- Aditya Khetan:** Any guidance on the tax rate for the full FY'21?
- Mayur B Padhya:** We will be charged full tax for the current year, but once we capitalize this new project, at that time, we will get some benefit of depreciation, otherwise, we will be fully charged as per the new tax regime of 22% plus, that comes to 25.17%.
- Moderator:** Thank you. The next question is from the line of Pratik Choudhary from Samarthya Capital. Please go ahead.
- Pratik Choudhary:** Out of this new expansion which is going to come by September 2022, the Rs.400 crores revenue number which you have given in, is that the external sales number?
- Ankit S Patel:** Yes, it is the external sales numbers after the captive use.
- Pratik Choudhary:** The tonnage amount you said was around 55,000 tons, right, for the whole project?
- Ankit S Patel:** No, for the benzene series, it is going to be 55,000, but for sulphuric acid and derivatives, it is going to be 340,000 tons per annum.
- Pratik Choudhary:** And for benzene, how much is in mean percentage captive consumption?
- Ankit S Patel:** So at the total product mix, it will be around 25% to 30%.
- Pratik Choudhary:** For both benzene and sulphuric combined?
- Ankit S Patel:** No, for sulphuric, captive is going to be very small in the beginning. Immediately in the second phase, lower in the nature for CAPEX part, we are planning a few products that will create our

captive consumption for sulphuric acids. But for benzene, we will start with minimum 25%, 30% captive use.

Pratik Choudhary: And are we yet to apply for the environment clearance?

Ankit S Patel: No, we already have the environment clearance. Only for one product, we do not have. Rest of the 10, 12 products we already have the environmental clearance. So we do not have to wait for the last one. We can do it parallelly.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for their closing remarks. Thank you, and over to you.

Mayur B Padhya: Thank you very much for participating in this call. And festive mood has already started. So if anybody's any question left, they can directly contact us. Thank you very much.

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