Bodal Chemicals Ltd.
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To,
The General Manager,
**BSE Ltd.**
1st Floor, New Trading Ring,
Rotunda Building, P.J. Tower,
Dalal Street, Fort
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 Limited Q2 & HI FY24 Earnings Conference Call"**

We enclosed the transcript of Q2 & HI FY24 Earnings Conference Call with Investors and Analysts which was held on November 06, 2023.

Kindly take the same in your records please.

Thanking you,

Yours faithfully,
**For, BODAL CHEMICALS LTD**
Ashutosh Bharatkumar Bhatt

Digitally signed by Ashutosh Bharatkumar Bhatt
Date: 2023.11.09 11:57:14 +05'30'

Ashutosh B Bhatt
Company Secretary

Encl: a/a

# “Bodal Chemicals Limited Q2 & HI FY24 Earnings Conference Call”

## November 06, 2023

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

**Moderator:** Ladies and gentlemen, good day and welcome to Bodal Chemicals Limited Q2 & H1 FY24 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 from Bodal Chemicals Limited. Thank you, and over to you, sir.

**Ankit Patel:** Thank you very much. Good evening, everybody. On behalf of Bodal Chemicals Limited, I extend a very warm welcome to everyone for joining us on the call today.

On this call, we are joined by our CFO – Mr. Mayur Padhya. I hope everyone had an opportunity to go through the financial results and investor presentation which have been uploaded on the stock exchanges and our Company's website. We will give you a quick overview of the recent developments in the chemical industry and in our Company and then Mr. Padhya will walk you through the financial performance for the quarter.

For industry highlights:

The inflation in major economies continues to be at a higher level than the normal leading to lower purchasing power with mass**,** which results in lower consumption at end user industries and lower demand for our industry. Uncertainty of end of war between Russia and Ukraine further decelerated demand scenario of the chemical industry. Slow exports for textiles, leather and paper leading too subdued performance of Dyestuff over the last few quarters. The European market has been slow for more than 5 quarters now owing to multiple headwinds from rising inflation to uncertain geopolitical scenarios. The US is experiencing the most aggressive interest rate hike causing financial conditions to tighten and if these trends continue impacting the demand. Industry expects this weakness may continue for the short term, but gradual recovery is also expected. In today's environment where Indian suppliers are emerging as preferred partners globally, we have been able to leverage our leadership position. We are the India's largest integrated manufacturer of Dyestuffs and Dye intermediates and hold a meaningful market share in the world.

Coming straight to the operational performance:

Overall business performance for the first half FY24 has been weak as the Company's total revenue stood at Rs. 677 crores, a degrowth of 22% due to the decline in prices of raw material and margin is on account of decline in overall demand.

Coming to Dye intermediates:

H-Acid and Vinyl sulphone prices were stable at a lower level. On positive side, in first half FY24, total revenue from Dye intermediate chemicals stood at Rs. 205 crores as reported growth of 16% on year-on-year and it is due to the input volume. In Q2 FY24, as I said Vinyl sulphone prices were near Rs. 420 for H-Acid and Rs. 215 for Vinyl Sulphone. Volume has improved, however, margins are still under pressure due to lower realization. More than 40% of our intermediate products are used for the captive purpose of manufacturing various ranges of Dyestuff. Over the next few years, revenue pie from this vertical will eventually go down and business from Dyestuff will increase in favor of steady business growth.

Coming to our Dyestuff:

The end application industries like textile, leather, paper and other Dyestuff consuming industries have not performed well during the last few quarters. All leading textile companies are facing global headwinds which have curtailed the outlook of Dyestuff products. The Dyestuff business for the first half stood at Rs. 227 crores.

For Basic Chemicals division about 50% of our Basic chemical is captively used for Dye intermediates. The volume is optimum, however, due to the declined raw material and finish good prices, the revenue for the first half stood at Rs. 63 crores, the revenue degrowth of 42% compared to the first half of FY23-24.

Coming to the Chlor-Alkali business:

Post upgradation CAPEX, the Chlor-Alkali business has performed reasonably well. In terms of production achieved 16% growth in volume in the first half FY24 year-on-year basis. However, due to adverse market conditions of caustic chlorine industry revenue today at Rs. 129 crore and has reported a degrowth of 26%.

Coming to the new project:

Benzene derivatives, as highlighted in the earlier call, our main goal is to replace imports and capture business in the pharma and agrochemical markets where PNCB and ONCB are used. We will be installing the capacity of 63,000 metric tons per annum of benzene derivatives. The Saykha Greenfield project is progressing well and is expected to start by Q3 FY24. Sener Boya, our Turkish Company has performed well, though there are global headwinds in the chemical industries and severe earthquake in the Turkey in the recent past whereas the other industries have incurred nominal losses in a medium to long run view, these subsidiaries will bring meaningful business. However, in short term, we are expecting a modest performance.

We have been moving up the value chain and working relentlessly towards diversifying the business from our core Dyestuff and Dye intermediate business to other specialty chemical products like Benzene derivatives. Once we have decent visibility of demand for our product portfolio and new site is stabilized, we will restart the Sulphuric acid project. While the global growth and demand is impacted, growth momentum in India is strong. We will expect Chlor-Alkali business will contribute meaningful business in the coming years on back of our technology upgradation.

We foresee demand for caustic soda to remain healthy from FMCG, textiles and paper industries. Since very few players have a presence in North India, we will have a competitive edge to a certain extent. Manufacturers and exporters in India are having a challenging time managing the overhead cost. Over the years, the chemical industry has seen a transformation. Management is taking measures in terms of scale, cost, integration that will help to sail through this tough time.

Thank you and now I will hand over the call to Mr. Mayur Padhya to walk you through the financial performance.

**Mayur Padhya:** Good evening, everyone. The overall performance of the Company has been muted for the quarter gone by. Our standalone performance for Q2 FY24 is as follows. Total revenue for Q2 FY24 stood at Rs. 334 crores, EBITDA stood at Rs. 28 crores in Q2 FY24 with a margin of 8.5%. Net profit for the quarter stood at Rs. 1.03 crore. Our standalone performance for H1 FY24 is as follows. Total revenue for H1 FY24 stood at Rs. 663 crores, EBITDA stood at Rs. 56 crores, net profit for the half year stood at Rs. 2.1 crores.

Our consolidated performance for Q2 FY24 is as follows:

Total revenue stood at Rs. 336 crores for Q2 FY24. EBITDA stood at Rs. 29 crores for Q2 FY24 with a margin of 8.8%. Net profit for the quarter stood at Rs. 1.24 crore for Q2 FY24. Our consolidated performance for H1 FY24 is as follows. Total revenue stood at Rs. 677 crores against Rs. 8.69 crores for H1 FY23. This includes the export of Rs. 27 crores and domestic sales of 73%. EBITDA stood at Rs. 60 crores in H2 FY24 and degrowth of 31%. Net profit for the half year stood at Rs. 3.45 crores against Rs. 32.79 crores of H1 FY23. H1 FY24 performance of the key subsidiaries was subdued except for Sener Boya.

Segment wise performance on a consolidated basis for the H1 FY24 is as follows:

Dyestuff revenue stood at Rs. 227 crores, Dye intermediate revenue at Rs. 205 crore, Basic chemical revenue at Rs. 63 crores and Chlor-Alkali revenue stood at Rs. 129 crores.

Total production volume on a standalone basis for H1 FY24 is as follows. Dyestuff reported 6834 metric tons. Dye intermediate reported 10,492 metric tons. Basic chemical reported 1,12,034 metric tons. Chlor-Alkali stood at 38,094 metric tons. Our net date is at about Rs. 800 crores at the end of H1 FY24 on a consolidated basis.

With this, I conclude the presentation and open the floor for questions and answer and further discussion.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

**Aditya Khetan:** Sir, first question was on to the Dye intermediate side, like sir from second quarter of FY23, there you have reported the weakest volume for Dye intermediate of 2200 tons and there, sir we have witnessed a very swift improvement in volumes to around like 5000 metric tons for Dye intermediate, so that this improvement in volumes of Dye intermediates on quarter-on-quarter basis and Y-o-Y basis, sir despite the Chinese competition, so which are the major player into this business, have we not witnessed any sort of headwinds like increasing imports from China which is like impacting volume, but despite that, your numbers continue to remain good owing to the volume from the Dye intermediates, if you can share some idea as to whether has led to this improvement?

**Ankit Patel:** If you look at it on a year-on-year basis, then last year FY23 the same quarter, it was the lowest quarter in terms of Dye intermediate manufacturing for us. In recent few years that was the worst time that we had experienced in the Dye intermediate business and that is why the volumes had really gone down in that quarter last year, but this year, because we are looking at it in a year-on-year basis, that is why the increase is 100% and the volumes look really solid, but if you look at quarter-on-quarter basis, then compared to June quarter, the increase is not that big that much. So that is the reason why you see a big increase. So I feel that the volumes are quite normal where now due to the raw material cycles getting in a comfortable zone, we are now able to at least go for our manufacturing volumes, so that has been happening in the last couple of quarters.

**Aditya Khetan:** Sir, on quarter-on-quarter basis, also, there is almost 18% jump into the Dye intermediate volumes, so what is the like major reason for this jump? Is it because of the good demand or lower imports from China or like higher export of Dye intermediate? So this is a domestic product, so what is that fundamental factor which is like leading to this improvement in volumes?

**Ankit Patel:** Basically, the improvement is all because of the stability that we have experienced. So, September quarter was definitely a little better in terms of overall demand and more importantly the basic chemical cycle, the coal prices cycle, they were more comfortable. So that is why the September quarter actually had a more favorable scenario in terms of Dye intermediate production and business.

**Aditya Khetan:** And sir, on to the pricing side, so have we not like witnessed any increase in imports from China because still the demand in China continues to remain weak and they were the largest exporter of Dye intermediates like Vinyl Sulphone and H-Acid and pricing almost remains stable on quarter-on-quarter basis, so have you not experienced any increasing imports or any sort of?

**Ankit Patel:** Routine imports happen, but there was not any, though you are right about the local Chinese demand what we hear about is a little weak and uncertain right now, but as far as intermediates go, there are no extra imports that is coming in, even currently I would say. So that is why this intermediate demand it is quite stable right now, we are local demand and there is no extra pressure of any Chinese import.

**Aditya Khetan:** Is it also, sir because they are operating at lower utilization levels and if suppose there is an improvement in demand in China and in other countries they can further like increase the production and increase the exports, can this be a thing which we should work out?

**Ankit Patel:** No, I don't think so. If the demand improves in China, then obviously they will cater to that market rather than exporting all the way to India and their production levels are also not very weak. I think they are also doing quite, in terms of numbers I think all the big plants are operational. They are doing quite normal volumes at the moment.

**Aditya Khetan:** And sir, into your Chlor-Alkali business caustic soda, so prices like last quarter only they had witnessed record low level and this quarter also pricing continues to remain subdued, so what is that factor like you had mentioned that the improvement in demand from FMCG could be like the leading driver wherein the Chlor-Alkali business could improve, so currently like for this quarter that has remained subdued and that is the reason why prices have not gone up and it is anticipated that price might go up going ahead?

**Ankit Patel:** So going ahead in the longer run, we are linking it with the Indian's GDP growth and overall India's agrochemicals, pharma, specialty chemical, other chemical space, even textiles, even alumina, these are all the consumptions where we are witnessing a growth cycle. There are a lot of investments coming up in this space and with the Indian GDP growing overall country growing, overall incomes of the citizens growing, I think we see more spending because this has wide application, so in a long term what we believe is that we are going to witness good demand and in North there are very few plants. So where in Western part of India there are many capacities and it gets crowded sometimes, but in North, there are limited capacity. So, the opportunity is also good.

**Aditya Khetan:** And sir, last quarter, so Mayur sir has highlighted the fact that we would be getting some benefits onto the incentives front, so from which quarter this would start?

**Mayur Padhya:** It is not yet certain, we have already applied, but it is the government. So how much time they will take is uncertain, but we are expecting by March the approval should be there.

**Aditya Khetan:** And sir, what would be the run rate of incremental EBITDA per quarter?

**Mayur Padhya:** This will accrue from November 22 and what we are expecting about Rs. 20 crores per annum, rough estimate as far as incentive, both electricity and the GST benefit for the Punjab division.

**Aditya Khetan:** Sir, just one last question on to the demand, so pretty confident on to the dyestuff so how is the current demand of Dyestuff oriented currently and how we see increase our exports on Dyestuffs?

**Ankit Patel:** I mean for a short-term comment, Dyestuff is still witnessing a little weaker demand mainly because of the war in Europe and US inflation problem. So we don't see any immediate major increase in the demand coming in for Dyestuff, but we are doing decent volumes, but at the same time the overall Basic chemicals and other input cycles have stabled a little bit which is giving us a little comfortable working, manufacturing, so Dyestuff, I think will still take some time to increase in good double-digit growth.

**Aditya Khetan:** So, for FY24 and for FY25, that could be flattish or high single-digit growth?

**Ankit Patel:** Yes, FY24, so going ahead to the second half, it can be flattish year, but FY25, it really depends on how geopolitical, what all happens in the world still it depends on that, but I think in two or three quarters we should see some good improvement.

**Moderator:** Thank you. The next question is from the line of Rahul Jain, an Individual Investor. Please go ahead.

**Rahul Jain:** Sir, can you shed some light on the PNCB, ONCB market in India versus given the proportion of imports that we use in factory versus domestically manufactured?

**Ankit Patel:** So, there is a good size of imports that happen in India. There are three other companies that produce PNCB and their volumes are about 1.75 lakh tons per year. At the same time, there is also 50,000 plus imports that happen across India. At the same time, I am only commenting about PNCB right now. Our total capacity is 60,000 tons plus, but that includes other four products also, but the main product will be PNCB. So, with the main product, our target is to penetrate into our existing customers. We also have a very solid customer base in pharma, into agrochemicals and also replace some of the imports. So looking at our existing customer base, we have more than 85% of our volume is already, I would say, is going to be sold in our existing customers and we also have about 15% of captive consumption, that will also play a key role and plus there is a good export to replace exports is also a good opportunity.

**Moderator:** Thank you. The next question is from the line of Aditya Kethan from SMIFS Institutional. Please go ahead.

**Aditya Kethan:** Sir, on to the first half numbers as compared to your H1 FY23 numbers, on to the profitability side, the numbers remain quite subdued with the profit of only Rs. 3.5 crores for H1 and also onto the EBITDA side also, there has been a sharp decline, so sir like how you see second-half, so there should be a material improvement since you have already stated that the Dyestuff might remain flattish and Dye intermediate also have now reverted to the normal levels, so we should see a flattish second-half or there should be a major improvement and going into FY25 which are the factors like should improve our EBITDA levels or topline levels from here on?

**Ankit Patel:** Yes, from this level, as you have experienced and we have also declared the data, Dye intermediate business is slowly and gradually stabilizing. So, the quantum has improved and prices are also stable. So, there is a possibility that some improvement should be there in the prices of Dye intermediate and gradually it will follow in Dyestuff also. So, our old model that is Basic chemical, Dye intermediate and Dyestuff should start performing better going ahead. So we are expecting definitely somewhat betterment in second-half, but to quantify is difficult, but not in a major way, but there are certain areas what we are taking steps internally that is to reduce our fixed overhead because some of our plant which were working fully in the good time, now it is not viable to work over there. So, we are identifying that and gradual process is on, so over a period of time, we are targeting to reduce about Rs. 22 crores to Rs. 25 crores of fixed overhead reduction in the Company as a whole and another area as we mentioned that is about Rs. 20 crores of incentive that will become available to the Company from Punjab government. So, these two are the areas where we have different visibility and we are not dependent on any outside parameter. At the same time, what we are experiencing and what we are listening from other Company and industrial players that worst part is over, no doubt this current quarter, there are certain things like we need to have a closure of Sulphuric acid for one month and there is a Deepavali as well as Christmas, but overall mood or scenario if we look at that is improving and there is no threat from say China, last year in China prices of Basic chemical were very low compared to India. Now, in India also prices of like sulphur, caustic etc., are in parallel with China. So, there is no threat from China and there is a level playing field between India and China now as far as Dye intermediate is concerned, so yes, gradual improvement we are experiencing not in a very big way, but some improvement has to be there.

**Aditya Khetan:** And sir, this net debt figure which you have given of Rs. 800 crores, in this we have factored in the incremental debt we would be taking for Benzene derivative or like there would be like further increase into this net debt figure from here on?

**Ankit Patel:** Yes, this is the date at the half year end and there will be some increase by about Rs. 75 crores to Rs. 80 crores which is undrawn limit. At the same time, there will be repayment of about Rs. 50 crores in the balance of two quarters. So, there would be maybe hardly Rs. 20-Rs. 30 crores of improvement. So at the quarter end or the year end, the figure maybe between Rs. 800 and Rs. 850 crores of net debt.

**Aditya Khetan:** And sir, like on to the margin side, so like for the last 7-8 quarters, we had witnessed very subdued margin performance in very low single digit ranging from like 4% to 7%-8% and sir, since we are the backward integrated player into Dyestuff and having a very decent market share globally, sir like when can we see that material improvement into margins from this low single digit to around at least mid of like 12% to around 13% margin? What would be the driving factor like earlier, which Bodal Chemicals used to get, so any like a shift can be there or like we would be at the same level for the next few years?

**Ankit Patel:** Last 3-4 financial years, there has been too many other outside factors, especially COVID and this European war that affected us, again this current scenarios where US, Europe, Middle East all are going through some issues, so due to all this the demand especially from the textile space has been very inconsistent and so we are not able to consistently perform, yes, we do have the integrated model, we do have a substantial share in India and also a sizable share in on global map, but due to all these outside factors, we are not able to consistently perform. So I think going ahead that is our internal target whenever the times are normal, the demands are normal, I think our business model without the integration it should be able to perform at least 12%-13% EBITDA levels and with the addition of Chlor-Alkali and Benzene, we are looking to even push it more towards 14%-15% starting from FY25.

**Aditya Khetan:** Sir, Chlor-Alkali, in terms of our volumes, so it has nearly reached around 80%-85% utilization level, so things are like this much share of increase in Chlor-Alkali also have not been able to like shift your margin above that at least till date, so in future, like sir, how that can be a material driver for your margin change?

**Ankit Patel:** So, there is room for improvement in the volume. Today, we are operating at around 80% and we can still take it another 15% more and most likely in 2-3 months' time, we are going to have a good 15%-20% improvement in the volume. So that should add some a little bit to the margins. Also, internally in that complex, we are adding more pipeline buyers in terms of our chlorine and hydrogen. That is also going to make some difference and it is going to give us some more realization. We also made recent changes to boilers where our energy costs will also come down. There are still a few more factors which are yet to contribute to the optimum level. So, I think going ahead in another three months or something, I think all these factors will come into the play and it should give us an additional EBITDA of Rs. 20-Rs. 30 crores from the Chlor-Alkali business.

**Moderator:** Thank you. The next question is from the line of Rahul Jain, an Individual Investor. Please go ahead.

**Rahul Jain:** Sir, my question is, how do you see the situation on the ground with smaller units which are not integrated like yours, are they closed down in the past 3-4 years because of the terrible situation in demand?

**Ankit Patel:** No, the smaller units have actually not closed down because what is happening is because of this global uncertainties, we are integrated, yes, but then there is also material that started coming in from China and because even for integrated players like us, we are not able to sell or maximize our Dyestuff sales, so then our intermediate is also available for other competitors. So, it is not making them go out of business, but they are also, I would say, surviving because in Dyestuff there are many products. So because there are many colors and different shades, there is a wide number of products, I would say, more than 300-400 and at the same time there is also entire globally, there is a textile consumption happening every year. So due to that, even though the smaller players have their own product range, they also have their own market share. It could be all the way in South America, it could be here in South India, it could be in Bangladesh. It is a very big market. So still industry has not really reached the point where the integrated players can force the smaller not integrated players to go out of business. It is not happening.

**Rahul Jain:** And sir, could you please quantify once again the impact of cost savings and the incentive exactly for my benefit?

**Ankit Patel:** Yes, there are two parts as I was discussing earlier, we are eligible for incentive in terms of waiver of electricity duty in Punjab. In Punjab, our electricity expense per month is almost about Rs. 12 crores and it includes about 15% of electricity duty and once we get this permission from government, almost about 10% to 11% duty will get waive off. So, we will be saving almost about Re. 1 crore to Re. 1.25 crore every month as far as electricity duty is concerned. And the second part is the GST benefit, so there is a formula given by Punjab government wherein almost 25% of the GST paid by a Company will get reimbursed by government and in this case, where we are producing Chlor-Alkali, the value addition of GST is very big because our raw material is salt wherein GST is not involved whereas our finished goods are at 18% GST. So, there is a huge depth of input credit and output payment. So because of that also we will be benefited and for that we are estimating about Rs. 50 to Rs. 75 lakhs per month depending upon the prices of Chlor-Alkali that benefit will accrue to us. So, this is one part and as far as fixed expense is concerned, if you follow the Company, then we did some CAPEX in the year of 2017 and 2018 when we did the QIP, so at that time, we have increased our Dyestuff facility to double. At the same time, we have acquired the two subsidiary Company, one was Trion, then SPS which later merged with Bodal, but due to this all uncertainty during last 3 years, these capacities were not being fully utilized and as we build the capacity, our overhead has increased, but now there is a time we need to reconsider this fixed overhead and that is what we are working and that is why we are targeting and we feel that we will achieve reduction of fixed overhead to the tune of Rs. 22 to Rs. 25 crores gradually. I hope I have made your point clear.

**Moderator:** Thank you. As there are no further questions, I now have the conference over to the management for your closing comments.

**Ankit Patel:** With this, we conclude the call and would like to thank everyone for joining us today on this evening earning call. If you have any further questions, you can contact us. Thank you so much.

**Moderator:** Thank you, members of the management team. Ladies and gentlemen, on behalf of Bodal Chemicals Limited concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.