"Meghmani Finechem Limited
Q1 FY2022 Earnings Conference Call"

August 20, 2021

ANALYST: **MR. SURABHI SUTARIA –GO INDIA ADVISORS**

MANAGEMENT: **MR. MAULIK PATEL – CHAIRMAN AND MANAGING DIRECTOR - MEGHMANI FINECHEM LIMITED**
MR. KAUSHAL SOPARKAR – MANAGING DIRECTOR - MEGHMANI FINECHEM LIMITED
MR. SANJAY JAIN – CHIEF FINANCIAL OFFICER - MEGHMANI FINECHEM LIMITED
MR. MILIND KOTECHA – INVESTOR RELATIONS OFFICER - MEGHMANI FINECHEM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2022 earnings conference call of Meghmani Finechem Limited hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Ms. Surabhi Sutaria from Go India Advisors. Thank you and over to you, Madam!

Surabhi Sutaria: Thank you Margaret. Good evening everybody and welcome to Meghmani Finechem Limited earnings call to discuss the Q1 FY2022 results. We have on the call Mr. Maulik Patel – Chairman and Managing Director of the Company, Mr. Kaushal Soparkar – Managing Director, Mr. Sanjay Jain – Chief Financial Officer and Mr. Milind Kotecha – Investor Relations Officer. We must remind you that the discussion on today's call may include certain forward-looking statements and must therefore be viewed in conjunction with the risks that the company faces. May I now request Mr. Maulik Patel to take over subsequent to which we will open the floor for Q&A. Thank you and over to you Sir!

Maulik Patel: Thank you Surabhi. Good evening everyone, Maulik Patel here. I warmly welcome you all to Meghmani Finechem's maiden earnings conference call to discuss the operating and financial performance for the quarter ended June 30, 2021. I hope you all are doing well and staying safe during these unprecedented times. This week we achieved a key milestone in our company's evolution. We completed the demerger process and on Wednesday successfully listed as a separate entity on BSE and NSE. It is a good start and I would like to thank each of our stakeholders for their confidence and support. I assure you that we will do our best to generate wealth for all shareholders.

MFL as a company was launched with a vision to create a leading chemical company with a key focus on Chlor-Alkali and its value added derivatives. Over the last few years, we have been able to start a niche for ourselves in this space and have established ourselves as a supplier of choice with leading company prospective. We will continue to maintain strong focus on sustainability and have been certified with Responsible Care certification.

Before I hand over to my team to detail quarterly overview, I would like to reiterate that our singular focus is sustainable and long-term value creation for all our stakeholders and all our future corporate decisions will be aligned with the objective. This demerger will ensure that both the companies, i.e. is MFL and MOL have clear management focus and operate as business priority. With this I will hand over to my team for operational and financial updates post which we will open the floor for questions. Over to you Sanjay, our CFO.

Sanjay Jain: Thanks Maulik. Good evening. As Maulik Ji pointed out Meghmani Finechem was founded in 2007 in our core area of operation in Chlor-Alkali and value added derivatives. We have empowered workforce of 700 employees. Our team comprises of technocrat, financial professionals and strong team of advisors guiding us for our next phase of growth.

I will touch upon our financial and detailed later in the presentation, but to give an idea, we have delivered strong revenue growth with an average CAGR of 21% and EBITDA CAGR of 16% over the last four years. Our outlook is quite bright looking to a strong product portfolio. We are now moving up our value chain and setting up plant in India for products which are currently imported. One of our key strategic is our location. Our plant is located in PCPIR region of Dahej in Gujarat.

There we have 165 acre of land. These are significantly scalable facilities and while we are currently targeting to be 20 billion of revenue per year this facility can easily scale up to Rs.25 to Rs.30 billion of revenue.

With regard to operational performance, we had highest ever capacity utilization across all the products on account of improved demand. Since we added capacity on our Caustic soda plant we can see an increase in a volume by 79% with a capacity utilization of 86%. The capacity utilization of Chloromethanes is more than 100% and for Hydrogen Peroxide we have achieved capacity utilization of 75% in the very second year of operations. The peak utilization for caustic soda has been 87% and sales realization for Chloromethane increased by 40% year-on-year basis. With regards to the financial performance revenue was up 111% at Rs.290 Crores. EBITDA was up by 124% at Rs.92 Crores and PAT is up by 107% at Rs.37 Crores.

With respect to expansion plan, we are well on track as of today and are expecting that all the three plants will start functioning by second quarter of FY2023 that is next year. Currently, we have a long-term debt of Rs. 528 Crores, the net debt to EBITDA is 2.2x as of today but we are committed to maintain under 2.5x. Before I open the floor for questions, we are committed towards sustainable long-term beneficiation and have a strong focus on maintaining sales and healthy workplace. This gives us an even important milestone in our company's journey and ensures that both the companies have a clear management focus and opted as per their business priorities.

We also believe that there could be a true value unlocking process. With this I would like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kamal Gupta from Sunrise Finserv. Please go ahead.

Kamal Gupta: Thanks for your call. Congratulations on good numbers. I just want to know what is the spend on R&D and are we really holding the debt for expansion or we are doing it from the internal accruals as well? These are the two questions from my side.

Sanjay Jain: As far as the expansion is concerned, we planned for Rs. 700 Cr capital expansion in the next two years for projects like ECH, CPVC and third phase of caustic soda, out of which Rs. 135 Crores was already incurred till March 31, 2021. This year we plan to have an outflow of Rs. 350 Crores which was partly funded from the borrowed funds and partly going to be funded through accruals, in the tune of Rs. 100 Crores to Rs. 150 Crores and rest of the money will be in FY2023.

Kamal Gupta: What is the spending on R&D?

Maulik Patel: Currently, the product portfolio we have, majority we are buying the technology from the renowned experience companies from around the world. The ongoing R&D what we are doing to improve the process after taking the technology, so ongoing R&D expense is not more than Rs. 2 Crores to Rs. 3 Crores in a year.

Kamal Gupta: Percentage wise?

Maulik Patel: Percentage wise is very negligible right now.

Sanjay Jain: Actually it comes under the other expenses as miscellaneous where overall if you look at the position of other adjusted expenses it is hardly 2% of the total revenue. So that covers the R&D portion also.

Milind Kotecha: So the thing is that the expertise of the company lies with the technocrat promoters and the professional staff that we have in the manufacturing and so our expertise is to identify the products, to identify the technology that we need to use so that is where the expertise and that is where the actual thinking goes. It is not like a typical pharmaceutical where you will be having a proper lab kind of experience, but that might be happening down the line in future, not as of now.

Kamal Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir. Sir, I just wanted to understand something on the overall margin profile. Now we are getting 32% margin whereas 68% is currently Chloro-Alkali which is largely commodity and only 32% is derivative and still we are able to garner such high margins. So some insights on those, why is that so?

Maulik Patel: Yes, Mr. Deepak. It is a good question, because compared to our peers you can see that our margin is little on the higher side, so you can say that from the beginning when we started our Chloro-Alkali plant, it is completely with backward integrated which is a captive power plant. In India many of the players, they are not having a complete backup of the captive power plant. So some people they have a power submission from the grid as well. So, this is one of the major reasons and another reason is operational efficiency in terms of the plant capacity utilization so we have better than our peers so that is one of the key factors compared to others and you can consider our EBITDA margin is on the higher side.

Sanjay Jain: The next thing is that we are located in PCPIR, very close to the port that is also helping in maintaining the supply chain wherever it is costing.

Deepak Poddar: Sir, do you see that as a sustainable thing because maybe today the prices are on the higher side the end product, but when the cycle turns and the end product prices go down do you think that being a commodity, we can still garner such high margins?

Maulik Patel: Mr. Deepak your question is right, so far we are able to maintain the margins but looking at the future, the company thinks that it is better to go for a value added product and that is how our strategy we have changed three years ago and we started moving into derivatives where we use Chlorine in the chloromethane, hydrogen we consume in the hydrogen peroxide, now another derivatives, which we are planning for first time in India which is Epichlorohydrin and Chlorinated Polyvinyl Chloride/CPVC so all are going to be value added products, and it is kind of derisking and the sustainability point of view, in terms of EBITDA margins. So as a company we are targeting to sustain our EBITDA margin even though we will grow from here onwards to 2.5 times size of the company in the next three years still we will be able to maintain our EBITDA margin in range of 28% to 32%.

Deepak Poddar: 28% to 32% and individually can you throw some light like Chloro-Alkali what is the derivative? What is the margin profile difference between these two segments?

Maulik Patel: Mr. Deepak, you know that normally we are not able to disclose. That is our company's internal policy, but it is completely integrated complex, so whatever we produce on the Chloro-Alkali it is going into the downstream and another thing is I can give you the bifurcation in terms of the revenue because when we cross the Rs. 2000 Crores and when the Epichlorohydrin and the CPVC is commissioned the majority of that revenue, more than 50% revenue will come from the derivative segment and less than 50% will come from the Chloro-Alkali, instead of currently what we had 68:32 bifurcation.

Deepak Poddar: That is about it. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Varun Sheth an individual investor. Please go ahead.

Varun Sheth: Thank you for the opportunity. I just wanted to understand what is the gross block today? What will be the peak gross block in the expansion of Rs. 695 Crores will be completed and what will be the peak sales around at those gross block?

Sanjay Jain: Mr. Varun, if you look at the gross block, we had gross block around Rs. 1500 Crores as of March 31, without considering the expansion project what we had discussed in our presentation. So that all these expansion products comprises of Rs. 700 Crores capex, so we are looking at Rs. 2200 Cr of gross block on completing of this projects.

Varun Sheth: By second quarter next financial year it will be Rs. 2200 Crores.

Milind Kotecha: Yes, Rs. 2200 Crores. Also the third question that you had asked about the revenue so by the time, reaching to that gross block of Rs. 2200 Crores or Rs. 2100 Crores our revenue would be touching to Rs. 2000 Crores.

Varun Sheth: That would be 100% utilization of the gross block?

Maulik Patel: Optimal utilization.

Varun Sheth: Asset turnover, we anticipate to be less than 1, is my understanding correct?

Maulik Patel: You can consider it to be almost to 1:1 kind of a scenario will be there at that point of time. It is not based on the 100% capacity utilization. This is based on the optimum capacity utilization where we are running our plants, at almost 80% capacity, this will be the scenario.

Varun Sheth: So, optimum and if you say 80%, so balance 20% would remain unutilized. Is my understanding correct?

Maulik Patel: That is correct.

Varun Sheth: So, we have to consider asset turnover around 1 or little less than 1. What is the general standard in asset turnover if you can help me with that?

Milind Kotecha: See, actually if you see in that way our asset turnover ratio actually depends on the products that we are into. So as we are getting into the value added products and kind of speciality products like Epichlorohydrin and the CPVC the asset turnover ratio actually improves over there, but when Maulik said about the 80% capacity utilization that is the industry standard generally anticipated, but that actually depends on the market demand at that point of time so 85% is what generally we would go for the Chlor-Alkali segment, but for the derivatives, it can go up to higher capacity utilization also like last year we utilized 100% capacity of chloromethane and even for this quarter it is more than 100%, so it is not that 80% is standard, but average it is inferred that way and on the asset turnover ratio, as I said, it depends on the products, so the value added products and the derivative products that we are getting into it, have a higher asset turnover ratio and that is what will be visible in the return on capital employed, like if you see our FY2021 return on capital employed is 16% which is expected to improve down the line because EBITDA amount is also going to increase, as the capex that we have done will start contributing to the topline and the bottomline.

Maulik Patel: Mr. Varun, this the ratio, which we are talking about as we move on the downstream, because the capex the requirement is on the Chloro-Alkali side, but our all future strategy is based on the derivative and as we move on the derivative side, so that asset turnover ratio will improve further. As Milind has said the ROCE you can see whatever we have done in the last year, all the expansion, is commissioned, in this year we are going to get advantage of all the commissioning project of last year so, you can see the ROCE improvement in the first quarter itself where we have reached to almost 22%.

Varun Sheth: Got it. Sir, then currently after this expansion, still your asset turnover would be 1:1 and you said that you would be more into derivatives where your asset turnover would improve, so what is your long-term vision for the company post this expansion is over and how do you see the company maybe not since FY2024 where you have already stated for Rs. 2000 Crores revenue but even beyond that what is the vision for the company?

Maulik Patel: That is very interesting question, you have asked. So, by 2024 roughly you can say that about 50% of Chloro-Alkali the caustic soda, chlorine and hydrogen all put together in terms of we are going to be the captive consumption for the derivative segment, including the Epichlorohydrin and CPVC. Down the line, we would like to add more and focus on the agro and the pharmaceutical intermediates and so we would like to go as maximum we can to consume chlorine, hydrogen, and caustic soda in-house, for derivative segment. This new derivative products can be consumed in the pharmaceutical intermediate manufacturing or agrochemical intermediate manufacturing, which is majorly imported from China.

Varun Sheth: Our capacity will continue going forward also for the import substitution kind of products?

Maulik Patel: Import substitute and the derivatives. So that two segments is more focused in coming down the line after ECH and the CPCV as well.

Varun Sheth: Right. Sir, couple of more questions, you said that since you are located in the Dahej side, and where the port vicinity is there and all, I think today our exports is also very less round about 5%, 10% and our import is also very less if my understanding is correct. So, how do we want to give a message that the location wise, we are very good because port is nearby.

Maulik Patel: First of all, let me tell you, because one of the major raw material for Chloromethane and hydrogen peroxide, is chlorine and hydrogen, which we are generating from our Chloro-Alkali. For the Chloro-Alkali the major raw material is salt, which is coming from the 50 km vicinity and maximum salt in India it is serviced by Gujarat, so that is our biggest advantage. Another thing is we are right in between the chemical belt, right starting from Ahmedabad till Mumbai. So, all the chemical zones are around that area, so majority of the logistics cost is optimized. Second thing, the product like Epichlorohydrin which we will commission in the next financial year if you see all our major customers are within 100 kilometers range so this is going to be a biggest advantage what we have, not just because of the coastal region, but also because of the place that we are located.

Varun Sheth: Few questions if I can chip in, basically, you said that the captive power plant, you have the advantage of integration and all, and I think you have the coal based power plant, so how do you see coal prices going forward, that is the first question? Second question is assuming you would have not had that captive power plant and you would have bought power from Dahej then today your EBITDA margin you are still targeting 30% of them. How it would have looked if you would have bought power from grid and not let the captive power plant, if you can throw some light on this?

Maulik Patel: It is a good question. Normally in the western countries, the people would set up a Chloro-Alkali plant, do not have a captive power plant kind of a concept. But in India, because the instability of the power availability and sometimes the grid power is very expensive, because there are lot of subsidy to the farmers and other segments, so the cost of power for the industrial normal goes up, which we are getting it from the government. So, normally in the Chloro-Alkali if you want to enjoy the higher EBITDA margin, definitely without captive plant, it is very difficult to sustain on a long-term basis. So that is the first feeler. Second you are talking about the coal price recently because of the freight cost, what is happening around the world, the coal prices have also gone up, but at the same time, the demand of caustic soda has also gone up, so the finished price of caustic soda is also increasing because of looking at the internal scenario and the demand in the infrastructure worldwide.

Varun Sheth: Sir, my point was assuming you are running at 30% margin and if it would not have been captive, then what would have been the margin like scenario that is point number one, and how do you see, coal prices also moving in tandem with caustic soda prices going ahead or how do you see that going ahead?

Maulik Patel: Mr. Varun frankly speaking we do not have an idea of how we would run the plant without power plant, because we have not envisaged that kind of a scenario because we expect always higher EBITDA margin. So, we have always thought about it with captive power plant.

Moderator: Thank you. I would request Mr. Sheth to rejoin the queue for followup question. The next question is from the line of Karthik Sambandham from Unify Capital. Please go ahead.

Karthik Sambandham: Thank you for taking my question. Just want to understand the debt profile and you know the trajectory that we are planning for the next two years. So, what is the peak debt level that we are looking at?

Sanjay Jain: Mr. Karthik with respect to the debt profile, you know that we have a Debt to EBITDA of 2.7x in FY2020 which has been improved to 2.1x in FY2021, but since we are in an expansion mode, so we would have a debt of almost at a peak level of Rs. 700 Crores, long-term debt I am talking about and with this also we are able to manage the debt to EBITDA of 2.5x or somewhere near to that.

Milind Kotecha: Currently, in FY2021 the long-term debt was around Rs. 450 Crores, which because as we are doing a Rs. 350 Crores of capex in FY2022 it will go up, so that Rs. 450 Crores will go up to Rs. 700 Crores at an upper level and at that level our debt to EBITDA will be around 2.5x and from FY2023 onwards debt will start going down.

Karthik Sambandham: Can I say like given that probably we do not have any other expansion plans before FY2024, so this Rs. 700 Crores we are at least planning to reduce it to a certain level that you have in mind?

Milind Kotecha: Every year we have a repayment schedule of Rs. 130 Crores to Rs. 140 Crores as repayment of debt, so in that proportion, our debt will start coming down. In future, post FY2024, for the new projects the capex would not be that huge and that might be funded from the internal accruals of the company.

Karthik Sambandham: That is great. Sir, regarding realization per ton question, I just wanted to understand what is the exact number or the ballpark number for hydrogen peroxide, I mean realization per ton?

Sanjay Jain: See, actually we are not sharing the realization number for product to product. So, we do not do that, but on an overall group basis, you can definitely assume that because of our plant in the location plus all the consumers that we are serving are close by our realization is at the optimum level compared to the peers and in that all put together the margins that we have will be in the range between right now 32% will be in the range of 28%, 30% down the line.

Karthik Sambandham: Sir, why I was asking the question was we saw caustic actually realizations have almost in the international markets touched 30000 per ton, and the last quarter was around 25000. So, this quarter has seen a very huge kind of almost a three-year high. So, I am assuming could we assume that the related products like Chloromethane or hydrogen peroxide have also had some upscale there?

Maulik Patel: Mr. Karthik, it is a right question and right analysis, but if you see last year our EBITDA margin was also on the higher side, even though the caustic was on the lowest level. So, major reason is when the caustic has a lower sales, at the same time, the raw material for the captive power plant as well as salt was very low. So, EBITDA margins we focus and that we would like to maintain around 28% to 32% as per our guideline, but as per you are saying rightly that the Chloromethane and hydrogen peroxide as our capacities are picking up, so definitely their value addition is increasing more in our ratios and contribution is also higher side.

Milind Kotecha: As we have already specified in our presentation the realization from the hydrogen peroxide has increased by 36% on QoQ basis, so as we had said earlier the industries which are served like paper, pulp and the textile had actually started their facility and that is why hydrogen peroxide demand has gone up and the same stands for the chloromethane for the other industry so the realization at that level has also improved.

Karthik Sambandham: I just wanted to understand a ballpark sort of for example, for caustic you have mentioned 27500 or 30000 per ton, so for hydrogen is it around 70000 per ton or 60000 per ton, I just wanted to understand?

Maulik Patel: The hydrogen peroxide, normally the way people talk in a different language, because normally we sell at a 60% basis. And for 50% basis the current realization is around the 30000 range and from this percent if you convert it to 100% you can consider it is around 60000.

Karthik Sambandham: That is great. When it comes to chloromethane do we say that there is a heavy price correlation with PVC or it is a completely different product altogether?

Maulik Patel: It is different product line, but normally in the western part of the world, they had an intermediate complex like what we have created, so mostly it is integrated complex along with the PVC and counterfeited with the chloromethane, so if they have limited chlorine then they give a priority based on that. So, sometimes they decide if there is limited chlorine, then they prefer depending on the product availability and the product selection, they produce more PVC or chloromethane.

Karthik Sambandham: What is the ballpark realizations that we have here? I know PVC we have roughly around let us say 120 or 130 per kg so, is there something like that we have here any ballpark number?

Maulik Patel: Both are very different products. The PVC and the chloromethane is completely different. You cannot compare per ton kind of a thing, but the investment required for both the product is different. So, it is not comparable, but it is dependent on that particular country how is the scenario in terms of the demand of both the products.

Karthik Sambandham: Just one final question on the coal, as you rightly said the input cost was lower earlier even at the realizations of the caustic was lower, but then caustic soda had almost increased 100% year-on-year from 15% to 30% but the coal even increased further, so there is no cooling of that, so how do we eventually understand the margin, because the coal prices have also increased and it is definitely increasing, so can you say the cost and we know that 60% of the cost is pretty much electricity or power for totaling up the cost, so could you give me some colour more on the coal part?

Maulik Patel: Karthik this is I think is for all the majority of the chemicals, because worldwide the infrastructure is growing, so alumina production is on the peak, so, aluminium is on the peak, so the caustic demand is also on the higher side at the same time, the freight cost is on the higher side, so as the coal price has gone up, definitely the caustic demand has also gone up over a period of time. So, definitely as all the manufacturers, whoever produces captive plant and the caustic soda, if the coal price goes up, they immediately pass on that to the consumer and the consumer absorbs it because of the demand is there right now. So, definitely if we pass on the entire thing it takes 45 days kind of, but definitely it is immediately, we are be able to pass on because of the high demand of the products because of the current environment.

Karthik Sambandham: Just to end this opportunity to understand when caustic were at the peak at 40000, 45000 unless the margins really shot up, and we have seen every other chemical and metal shooting up in the recent past, so is there any expectation at all from the channel checks that this caustic prices are here to stay and probably improve from here on?

Maulik Patel: Looking at the current demand, definitely the price will sustain for a longer period of time, but the price which you are talking about the Rs. 45000 kind of thing, which we have got it in 2018 and 2019 time, see that is once in blue moon kind of a situation that is not a correct comparison. So definitely that kind of period you get once in a while and once in 10 years time in a cycle.

Karthik Sambandham: But you expect the current 30000 levels to probably sustain or probably improve?

Maulik Patel: That is absolutely right, but we feel in coming times, because the way all the costs setting up all capex for the Chloro-Alkali plant has gone up recently, so people who have done capex in the past, I think they will have an additional advantage because the current movement and the current prices of all the commodity has gone up, so the capex for majority of the players has also almost increased by 35% to 40%. So the people who had infrastructure and who were also placing capex couple of years ago, definitely they have an edge compared to the people who are going to invest in the future.

Kaushal Soparkar: Mr. Karthik the most important thing here is in Chlor-Alkali for the caustic soda is a cyclic product. The cycle will keep on moving. We as a company follow on the EBITDA which we have been talking all the time, but the EBITDA margin has to remain sustainable then that is where we focus. Pricing can be 45000 or 25000, but our EBITDA what the range nobody can talk about, in the range of 28% to 32%. That is what we focused on.

Karthik Sambandham: That is great to hear. That is a very encouraging point. I look forward for the future interactions. All the very best.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Good afternoon everyone. Sir, my question is on the sales part, we are very confident in the execution side, we are setting up a specialty plant but what about the approvals from the customers? Generally what we understand is that for specialty product, they generally take time, customers do not approve it as soon as it start producing, but you are very confident in the next three years, when you go to 2000 Crores, so, I would just like to if you could talk about how are the client approvals and what kind of opportunities and what are we trying to gain market share or that enduser industry is going to growing so fast and we have customer approval in place?

Maulik Patel: Bhavesh, interesting question. It depends on the product to product. In some of the products, you do not take too much time for approval, in some products, it takes time for approval, so when we select a project so we have been in touch with all our customers from the day we have selected a product for the expansion because after meeting all the key people who are buying this product, we met them and then we have decided to go ahead in this project. So that is one thing. So, everybody is aware about it and our marketing team has already started discussion with all the customers which we are coming in next six to nine months' time. So, we are in touch with all the customers, but the product which we are planning to come, I do not think it is going to take too much time for the approval because none of the products are going as a finished API kind of thing, or finished agrochemical kind of thing, where you know, you need a lot of trial and a lot of approvals from the regulatory body so our products are not that kind of products, that will take a lot of time for approval.

Bhavesh Chauhan: Sir, on the execution side, what are the challenges that we see because these are like newer products trying to produce those products at a required optimum quality any challenges that we see?

Maulik Patel: Definitely, when you want to achieve 28% to 32% EBITDA kind of margin and when you select a product, the product selection itself is a big task to maintain such kind of EBITDA, but we have to make a very unique strategy, so this is first time we are planning to set up Epichlorohydrin plant, definitely we faced a lot of challenge during the execution, I am talking about the last year when the COVID's first wave came in, so majority of the detail engineering and basic engineering that kind of execution we have done completely online by taking help of our technology suppliers. So those kind of challenges we have faced, but we have already passed that situation. So, right now all our focus is going on the last part of our execution and which is going on right now at the site, so now the difficult part we have already passed, so I do not see any major challenges, we are going to face in the coming time.

Bhavesh Chauhan: Sir, lastly can you talk about your competencies what we understand is that one is logistics cost is much lower because you are strategically located, you have a captive power but apart from that what are the other strengths that our peers will not have?

Maulik Patel: See, I would like to give a big credit to our team, so we have a very excellent team, you can say that in terms of execution, in terms of operational efficiency, that is why we are able to maintain a higher EBITDA compared to our peers. Second in the sales side also, we have always focused on the realization. So, we do not like to do a long-term contracts, where we do not get a value. So, we do a contract based on the quarterly basis and try to avoid a long-term contract which is sometimes, considering the current situation where the raw materials are going up and down, you cannot pass on the same to the customers because of the long-term contract, so that kind of a scenario we are trying to avoid. Another important thing, whatever we are planning in terms of the capex also if you see, our capex is always on the lower side compared to what the industry standard it is. So, our focus on the project execution is highest level in the organization.

Bhavesh Chauhan: Thanks a lot. All the best Sir.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Thank you for the opportunity. Sir, can you specify how much capex we did in this quarter out of the Rs. 350 Crores we are planning in FY2022?

Maulik Patel: You are asking for this quarter?

Darshit Shah: Yes.

Sanjay Jain: This quarter we incurred almost Rs.110 Crores, comprising of three projects.

Darshit Shah: What will be the long-term and short-term debt as on June 30, you said Rs. 528 Crores for June, right?

Sanjay Jain: As far the long-term is concerned, the number is Rs. 528 Crores that is mentioned and short-term loan that is the working of the loan, it is round about Rs. 85 Crores as of Q1FY22.

Darshit Shah: You are saying your peak debt will be somewhere between Rs. 700 Crores and Rs. 750 Crores and that probably will include Rs. 211 Crores preference shares in that, right?

Darshit Shah: Yes, so that will be excluding that amount?

Sanjay Jain: Yes.

Darshit Shah: When we plan to pay that amount back to MOL?

Milind Kotecha: See, we are in an expansion mode and as you know that we are targeting Rs. 2000 Crores of revenue so currently, the debt and internal accruals are what we are using for the growth, so as we go down the line and as you know ECH and CPVC will be commissioned, then it will start contributing to the topline and the bottom line, so the free cash flows will be on a higher side, so we will start repaying. So we will be paying that in the near future.

Darshit Shah: Do we plan to have some sort of dividend payment policy to the shareholders in future, or is there anything on the making?

Milind Kotecha: Yes, we are also of the same view and we are thinking on those lines, so that will be discussed at the board meeting and definitely we will be coming up with something on that.

Darshit Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of HS Dhodi a retail investor. Please go ahead.

H.S. Dhodi: Someone asked you about your strengths, you did not mention the land bank and in one of your interviews, I heard you mentioning that your forefathers had good vision and they invested in huge land banks. So, I want to know that even after their expansions in 20 Crores, what will be the land bank available thereafter and if you can correlate this with what kind of expansions and what revenues it could generate? That is all I have.

Maulik Patel: Mr. Dhodi, I think it is a good question for the future in a long-term point of view. In 2007 when we started the company at that time we had invested in 65 hectares, almost 165 acre, of land, so right now out of that 70% is occupied but another interesting thing is all basic infrastructure which is required like water reservoir, like power, like steam, the majority of the utilities when we set up any future capex or any future downstream plant we do not need to invest. It is already there like admin block, like QC block, like R&D block, everything is there in this. So, just we need to add a manufacturing blocks. If I envisaged that in this complex, we can reach up to Rs. 3000 Crores of revenue. Over and above we are looking for a land surrounded in this area for the future as we wanted to grow in the same area.

H.S. Dhodi: Sir, my second question is that your erstwhile Meghmani Organics there was hardly any DIA in FII Holdings. But then in the Meghmani Organics erstwhile, so now in Meghmani Finechem, you think that will change, because unless that happens, you know the value which you deserve and what like other industries Aarti or Deepak Nitrites or Navin Fluorine and that kind of a valuation and that kind of piece can only happen if FIIs and DIAs come. So, do you think that that is going to happen?

Milind Kotecha: Right now, if you look at Meghmani Finechem our focus is to work on the growth of the company and maintaining the margins and improving the return on capital employed, so that will continuously help the shareholders. What you said is right, but definitely that is something which might come in near future, but our focus is on the business. Investors and institutional investors will follow once they find us attractive.

H.S. Dhodi: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Priyank Parekh from Nrups Consultants. Please go ahead.

Priyank Parekh: Thank you for taking my question. Sir, my question is around the Rs. 211 Crores of preference share debt we have. As I understand, we have to pay 8% fixed dividend on that and since it is a dividend we are not going to get any tax benefit on that. So, would not it be a bit tax inefficient comparing with the external debt?

Sanjay Jain: Very good observation of yours. With regards to Rs. 211 Crores of debt, yes it is going to be a part of the debt and we are supposed to pay 8% dividend on that and it will be followed as part of our finance cost, but if you look at the numbers and if you take at our tax rate we have the expansion back to back. We do have the maths over there. So, we have to as of now at least for the next three to four years only we book profits only, which is in the range of 17.5% or something like that. So, in the booked profits will definitely get the benefit of this finance cost of Rs. 16 Crores, or above Rs. 16 Crores which will be shown as a 8% in cost. Beyond that I do not think or foresee any tax disadvantage as of now.

Priyank Parekh: Good. Thanks. That is all my question.

Moderator: Thank you. We will take one last question which is from the line of Shanaya Nair from Value Investment. Please go ahead.

Shanaya Nair: Sir, on the chemical sector, as you know everyone is looking at the China Plus strategy, so do we have any plans of expand in those chemicals that will benefit from the same?

Maulik Patel: Yes, we do have. As we mentioned last year and our focus is import substitute. So, currently we are focusing which are import substitute, whether it is coming from China or other western part of the country, but as you rightly said, the way the government is supporting the manufacturing sector, lot of pharmaceutical and the agrochemical companies are going to start manufacturing in India in the coming times, so those raw materials are heavily dependent on Chinese manufacturing. So, as chlorine and hydrogen derivates manufacturers we think we are also thinking to manufacturing in those lines and we are also focusing on those lines. Down the line we will think about that as an import substitute for the specialty companies in India which are coming from China.

Shanaya Nair: Sir do you have any inorganic growth plans for the future?

Maulik Patel: Currently the line what we are into we already have a plan to grow in that segment because there is a demand. So after three years, if we find it is not and we will have surplus cash, based on the Epichlorohydrin and the CPVC cash flow. So, we might think at that point of time, but currently in the next two and a half to three years, we do not have any plan of inorganic growth.

Milind Kotecha: Also on those lines, the project that we look into should be feasible enough and should be in the line of the margins that we are making. So, it is not that we have cash flow so we will do it, that inorganic growth should make sense for the businesses to grow.

Shanaya Nair: Thank you Sir. That is it from my side. All the best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Kaushal Soparkar for closing comments!

Kaushal Soparkar: Good evening everyone, Kaushal Soparkar here. I am extremely thankful to all of the people who have joined this call and without your efforts and support, we could not have made this wonderful debut of the Sensex. Overall the industry is a building block of chemical industry and as we have been saying and committed towards maintaining the

EBITDA in the range of 30% committed towards setting up a downstream products, that will not just add value in the topline and bottomline but also it will become import substitute for our mission. Two upcoming projects are happening first time in India and that will give us as a first mover advantage. We have dedicated focus through ESG also. That means it will help us maintain the top position for Chlor-Alkali industry in India. We look forward to such support from you and if you have any questions then please get in touch with us. With this I would like to say good bye and be safe. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Go India Advisors that concludes this conference. Thank you all for joining us. You may now disconnect your lines.