"Meghmani Finechem Limited Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Meghmani Finechem Limited earnings conference call hosted by Go India Advisors. 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 Ms. Monali Jain from GO India Advisors. Thank you and over to you Madam!

Monali Jain: Thank you Vivian. Good evening everyone and welcome to Q1 FY2023 earnings of Meghmani Finechem Limited. We have on the call Mr. Maulik Patel, Chairman & Managing Director, Mr. Kaushal Soparkar, Managing Director, Mr. Sanjay Jain, Chief Financial Officer, Mr. B. Ravi, Strategy Consultant, and Mr. Milan Kotecha, Investor Relations Officer. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. May I now request Mr. Maulik to take us through the financials and the business outlook subsequent to which we will open the floor for Q&A. Thank you and over to you Sir.

Maulik J Patel: Thank you, Monali. Good evening everyone. Welcome to the call to discuss MFL's Q1 FY2023 performance. I trust you had the opportunity to run through the earning presentation which was shared earlier today. Q1 FY2023 was very good quarter for MFL both in financial terms as well as on operational side.

On operations side, we have achieved highest capacity utilization for all our products. On financial side, we have achieved highest ever revenue, EBITDA and PAT for the quarter. We can attribute this to the robust demand for all the products leading to high realizations and the volume growth of 5% because of high efficiency and the capacity utilization.

On the strategic side in Q1 FY2023 on June 1, 2022 we have commissioned India's first epichlorohydrin plant based on glycerol process. We have commissioned ECH plant within committed timelines and within the estimated capex limit. Credit for the same goes to the whole team. At Meghmani Finechem our team is focused on protecting the environment by using the best and latest technology. In line with that we have entered into JV to set up 18.34 megawatt wind solar hybrid power plant to meet the energy requirement of our existing as well as future projects. Also help for the process to get the RESPONSIBLE CARE Certificate, we were re-audited and as we met its entire rules and requirement we were awarded the RESPONSIBLE CARE Certificate for three years.

On July 18, 2022, we have commissioned India's largest CPVC resin plant with a production capacity of 30,000 tonnes per annum. This project was also completed within the committed guidelines and within capex limit. As of now the products are under approval process with various CPVC pipe makers as the products are approved by various customers which should take around three months so post that we expect volume of CPVC to pick up Q3 FY2023 onwards. Considering capex that we have done in the last two to three years gives us confidence to meet our revenue guidance of 50% growth in FY2023, also to further growth the capex on chlorotoluene and its value chain has started and also worked on setting up a R&D centre is initiated. Hence we are moving in right direction for our long term growth of achieving Rs.5000 Crores revenue by FY2027 with strong ROCE. By FY2027 almost 60% of the revenue would be coming from the value added derivatives and the specialty chemical segment. Now I will hand over the call to Mr. Sanjay Jain, our CFO who will take you through the financials.

Sanjay Jain: Thank you, Maulik. As Maulik already mentioned that the company has achieved ever highest turnover of Rs.533 Crores that is a growth of 84% year-on-year basis the higher capacity utilization across the division and better realization attributed to this growth of 84%. In absolute term EBITDA has doubled at Rs.187 Crores. The EBITDA margin has significantly improved from 35% to 37% Q1 FY2023 against 32% in Q1 FY2022. Thus this is an increase of 333 BPS on quarter to quarter comparison. This is mainly an account of higher realizations and better capacity utilizations.

While the margin in the quarter were higher on account of higher realizations but over a period of time, we believe that the margins for the year as a whole should be around 28% plus or minus 2% for the year as a whole. Our PAT grew 3x to Rs.108 Crores with PAT margins stood at 20%.

Overall plant utilization increased to 94% in Q1 FY2023 compared to 88% in FY2022. Capacity utilization of caustic and hydrogen peroxide stood at 94% while chlorotoluene stood at 105%. The utilization of caustic soda and caustic potash is up by 104% and 130% respectively.

The return of capital employed improved to 33% in Q1 FY2023 from 19% in Q1 FY2022. The debt to EBITDA has improved to 1.6x Q1 FY2023 from 2.x in Q1 FY2022. The ratio improved due to absolute growth in the EBITDA even on the increased debt due to capex. The return of equity improved to 48% in Q1 FY2023 from 22% in Q1 FY2022.

Expansion project of caustic soda is moving as per schedule and this is likely to be commissioned by end of Q2 FY2023. For this quarter, we spent Rs.57 Crores on capex against estimated budget of Rs.180 Crores for the year as a whole.

With this we can now open the floor for Q&A. Thank you.

Moderate: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Merwan Kotwal from B&K Securities. Kindly proceed.

Merwan Kotwal: Good afternoon Sir. Congrats on the strong set of numbers. Sir I have a few questions with respect to I think the current slight correction in caustic prices so are we seeing this more as a function of this supply is coming from the market or this is a more of a function or a little bit of weak environment? My question was that basically off late I think we have seen a little bit of weakness with respect to caustic prices is this more a function of there being sluggishness in demand or is it more a function of seasonal factors since I think most places have got disproportionate rain and my second question is that we keep hearing a lot about this European power crisis so has that resulted into some new opportunities emerging for the entire sector with respect to exports?

Maulik J Patel: I think most the answer I will give you in a different way because yes you are right there is a slight correction in the caustic soda price but if you see the other commodities and other products which are reduced that much price reduction is not there in the caustic soda and that you have given the correct answer that the Europeans are mostly the gas based economy. They are not oil based economy and there was no impact in terms of the Chinese lockdown in the European and the US economy so their caustic soda prices remain high in both the continents so because of that we feel that the caustic soda price the correction which will not happen as much as it is in the other products which we can see right now due to the Chinese lockdown and the oil price reduction and caustic soda because of the two continents has a high demand and the power pressure definitely the entire energy cost in the worldwide has not any major change in terms of the cost so this will continue to remain high that is what we feel as of now.

Merwan Kotwal: What I was saying, are we seeing some kind of import opportunities to Europe which are surfacing because of the expected power crunch in the winter months that is anticipated to take place in the continent so are we seeing increased enquiries?

Maulik J Patel: Normally when the prices are high in the global normally this has a global situation. It is not only dependent on the one or two continents so price definitely European price is higher and the US price is higher so definitely there is a supply chain. The supply chain will be changed immediately based on the pricing effect based on the continent so yes that is a high demand and high opportunity will be possible in the coming times due to the high cost of European chemicals overall if you see.

Merwan Kotwal: Thank you so much.

Moderator: Thank you. The next question is from line of Riya Mehta from Equitas Holdings Limited. Please go ahead.

Riya Mehta: Sir congratulations on great set of numbers. Very commendable results. I actually would want to start with caustic so basically especially pressure globally as well as decline in textile demand so recently all mills were closed; however, because of lower cotton prices? They restarted but there is a tepid demand for raw textile which forms almost 20% to 30% of caustic demand so what is your view over there? Are we seeing demand pressure as well as lower prices?

Maulik J Patel: Mehta just to give you answer definitely the textile sector is down currently but if you see the globally the caustic demand which was surged recently which is mainly because of the construction sector and the infrastructure sector so the alumina which is the sector which is also the demand is continuing and definitely the agrochemicals like in India to be very precise textile sector is down but the agrochemical sectors which is there is a great demand right now and there was no impact in terms of the recent correction which is happening in the chemical sector so the demand in the agrochemical sector which is continuous. Every sector has a different calculation based on the current end user market so every sector is not going down as we see like textile industry so definitely that is why that is the only reason why the caustic has a least impact in terms as compared to the other chemicals.

Riya Mehta: Overall has a total across all the sectors included how much decline in demand do you see in domestic market because capacities have also been added by a lot of your competitors and there is a kind of overcapacity with decrease in demand and if so how much would you quantify the degrees on demand?

Maulik J Patel: Caustic soda definitely many people are in the pipeline and everybody is like we are also expanding because we are the growth of caustic soda it is happening based on the GDP of the country normally. So that much capacity should be added once every year in India at least and sometimes it is a little higher capacity than required and sometimes so it compensated over a period of next three years in terms of the capacity per year requirement because demand of India is also growing because we are just starting infrastructure spending the chemical sector because of the PLI, agrochemical sector, pharmaceutical sector so everybody is expanding in India. Definitely the current demand has different sentiment right now but overall if you see the capex which are going on right now of the different industrial sector that will continue and I think the demand over period of time will absorb whatever the capacity will expand in coming times.

Riya Mehta: What capacity utilization do we forecast for this year?

Sanjay Jain: For caustic soda we said about 90% optimum capacity were in our plant efficiency.

Riya Mehta: Even after the incremental plant which is going to get commissioned that will be operation of 90% right?

Sanjay Jain: On pro-rata basis, yes 90% even on the incremental capacities.

Riya Mehta: Second question would be I was just going through the financials I see inventory building up so change in inventory so what was that like is it because of coal we had bought a lot of coal or what was it?

Maulik J Patel: That is mainly the reason because the two major plant which we have commissioned in Q1 which is epichlorohydrin and the CPVC so definitely both the products input which is PVC and the glycerin we are already having a stock. We have kept the stock because we need to keep a planning at least for two months inventory looking at the future so that is how the inventory is building up in the in the balance sheet.

Milind Kotecha: Just to add to that now as the cycle of in terms of selling will start that rollover will happen so what you are seeing is on FY2022 when we just had inventory and the plant was not commissioned so that will start rolling now.

Riya Mehta: Right and as far as power cost what is the current cost per unit so I remember in Q4 you had told that because of the increase in coal prices, it had run up to 9.15 per unit whereas the grille cost was around 8.5 so currently what would be the cost per unit for us?

Sanjay Jain: For this quarter the generation cost is now around 9.5 for captive power plant yes.

Riya Mehta: And for the coming since the coal prices was reduced?

Maulik J Patel: Yes there is a slight effect in the coal price in the coming quarter but it will come in the Q2 and Q3 onwards yes.

Riya Mehta: Currently what will be the price per unit basis if you could help me out with that?

Maulik J Patel: The current prices as we also have seen the coal prices to cool down a bit but again how much it will be per cost unit it is too early to comment. We are just in the starting of our quarter because you cannot procure for a longer period of time. Normally we keep the coal keeps coming and at least we do not keep for more than 15 to 20 days inventory of the coal so definitely based on the price what will happen in the current next three months I think which is very difficult to predict right now in the current situation but yes we do not see major change in terms of the energy cost worldwide because there is a pressure from in the gas side. There is already pressure in the European country.

Riya Mehta: Okay and what will be our current exports in the current quarter as a percentage of sales and how much do we see it going forward?

Sanjay Jain: You are talking about the exports versus domestic?

Riya Mehta: Yes?

Sanjay Jain: We too have exports in this quarter but actually the ECH which was recently commissioned but if you look at the company as a whole there is hardly not substantial maybe around 5% to 7% of total revenue.

Riya Mehta: Okay and as a percentage of caustic how much caustic would we be exporting?

Maulik J Patel: Currently we are doing only 5% to 7% of the caustic soda which we are exporting right now but in coming times we expect looking at the current situation we find it that the ECH we are able to export in the different continents from Q3 onwards so the export percentage will increase in coming times looking at the current scenario.

Riya Mehta: Okay and what are the prices like for ECH have you seen any decline in that from when we had planned for commissioning say CPVC as well as ECH?

Maulik J Patel: I will just give you the brief that when we do a project and when we conceive a project at that time it was Rs.110 kind of thing but it went up after Corona this went up to Rs.225 level, Rs.250 level almost Rs.250 but currently the price of ECH is around Rs.215 to Rs.220 level right now. It is coming down slowly yes.

Riya Mehta: Okay and what is the sustainable we can just take it for our assumptions?

Maulik J Patel: Frankly speaking you know it is in the current situation it is very difficult to say what it is going to be.

Riya Mehta: I understand and just one last question is coal capacity could you give the breakup of the revenue from each segment like caustic, ECH, etc.?

Sanjay Jain: Again, as a company as a whole we just give in terms of breakup of revenue, chlor-alkali and the derivatives and the specialty segment so we would like to keep it that way.

Riya Mehta: On a full capacity basis?

Milind Kotecha: On a full capacity basis in FY2024 when we will be reaching to the optimum capacity utilization for all the products that we have commissioned recently that is CPVC and the ECH and chlor-alkali additional capacity then around 45% 50% of the revenue will be contributed by the derivatives. Basically we will be reaching to optimum capacity utilizations for the new plants which are ECH and CPVC in FY2024. In FY2024 once that happens we expect our revenue contribution from derivatives and specialty to be around 45% to 50% of the total revenue.

Riya Mehta: Got it and my last question Sir from my end would be what is the current ECU of caustic and what is the chorine realization right now?

Sanjay Jain: The current ECU is 50,000 for caustic as of now. This is a little bit on the higher compared to last Q4.

Riya Mehta: It is still higher than last Q4?

Maulik J Patel: The current ECU is around 50,000.

Riya Mehta: I think Q4 we had done around 49,000 if I am not wrong?

Maulik J Patel: That is right.

Riya Mehta: Chlorine.

Milind Kotecha: Chlorine again when we calculate the ECU chlorine is factored into that so it comes into that but considering the last quarter it was a bit negative but again that is adjusted in the caustic soda prices so that is taken care of and also we use our chlorine now in the chloromethane plant and further in the CPVC so when it is negative we enjoy that benefit in our derivative plants and when it is positive we enjoy in the caustic soda plant. That is the beauty because of having the integrated plant.

Riya Mehta: Yes but what would be the negative realization if I can get that number?

Maulik J Patel: Around 4.5 per kg.

Riya Mehta: 4.5 per kg okay. I think that is it from my side. Thank you so much.

Moderator: Thank you. The next question is from line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead. The next question is from the line of Rohit Nagraj from Centrum Broking Limited. Kindly proceed.

Rohit Nagraj: Congrats on a good set of numbers and commissioning of the two projects so first question is on epichlorohydrin in terms of glycerin availability and incremental usage for glycerin how are we connected with the vendors in terms of medium term or long term contracts and the second question on the same thing whether the plant I think the plant is about one month operational so is it stabilized and is it giving us the normal spec products. Thank you?

Maulik J Patel: Rohit just to give you answer yes plant is a little low capacity. Right now we have just started so every quarter it will increase the capacity gradually and the current we are started selling to all the customers which is in within India, to European customers as well as US customers so once they will receive it and probably they will use it and probably they will start placing the new orders from the Q3 so we believe that looking at the current situation all the trial orders everywhere it is going we feel that the Q3 onwards the actual volume will start reflecting and consuming actually we are able to increase the load which we are running right now in Q3 onwards and looking at the just to give you the answer for the glycerin yes so glycerin globally the glycerin price is a little bit coming down. The reason behind it the palm oil export was banned in Indonesia initially. Right now the government has released that export. That is one of the reasons and another reason is the bard is a percentage which is going to add which is like in India ethanol we are using in the blending of petrol the same thing that kind of palm oil based biodiesel in Indonesia government has increased the percentage from 30% to 35% so definitely when you produce more biodiesel it will come out as a byproduct glycerin more so definitely the it is good sign as a raw material user of glycerin that we will get a glycerin and the more and more biodiesel we will produce and more and more glycerin will be available in the future.

Rohit Nagraj: My second question is on CPVC so given that the plant has started a few days ago once it stabilizes and starts producing the spec product what will be the timeframe within which we can reach probably 100% utilization given that currently it completely import substitute product and there is impending demand in the domestic market? Thank you.

Maulik J Patel: Yes just to give you answers this is not where we can reach 100% capacity so definitely maximum we have considered this kind of plan we can reach maximum up to 75% capacity. You cannot increase more than 75%. Definitely you need to do minor bottlenecking and then you are eventually reach it but initial we have considered the 75% is the max level you can generate because this is a lot of solid handling plant while there is always a restriction in terms of the output. You cannot reach more than like the 90% or something which we are getting it in all liquid products right now and the CPVC based product we have started producing. The same situation we have given a trial to the all the customers who are making pipes and fittings from that and this is I think I would say it is almost 45 to 75 days journey where you know people start from the small orders eventually they increase the size of the lot and I think after 60 days when they are comfortable I think they will increase the quantity as a regular from Q3 onwards that is what we see from currently so yes I think more or less we have already contacted all the customers and probably the initial trial orders are about to finish probably by end of this month and slightly bigger orders will start generating from the Q2 but actual sales will actually start from Q3 onwards only.

Rohit Nagraj: Effectively maybe by start of FY2024 we will be able to utilize the capacity optimally if the product is approved by our customers?

Maulik J Patel: The product will be definitely it will be approved by I think in next 45 to 60 days time maximum and start people ordering you know fluorine gradually from Q3 onward they will increase their volume and we are expecting by Q4 end of Q4 will reach to optimum level of the capacity.

Rohit Nagraj: Sure that is helpful. Thanks a lot and best of luck Sir.

Moderator: Thank you. The next question is from line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead.

Amarnath Bhakat: Your current ROCE is 33% and your current EBITDA margin is 35% and you are guiding for 2023 the EBITDA margin I think is a year wise EBITDA margin of 26% which is around 10% lower and return on capital employed from 33% to 25%. Now of course the sales growth projection is 50% what would be the impact on the absolute EBITDA number then? It will be growing because the EBITDA margin is coming down substantially and I believe probably you are estimating the current realization will result into drawdown of this EBITDA margin from 35% to 26% so can you please highlight what would be the impact on an absolute EBITDA level or an absolute profitability level?

B Ravi: I will take this question. All the guidance which we have given at the beginning of the year are all for the long term for the entire year as such. This particular quarter has been exceptionally good looking to the kind of price increases and the offtake which happened. We did not really expect that this would be the kind of an uptick for the first quarter so when we give a guidance we normally look at averaging it out for the entire year so we do believe that yes this particular quarter's good performance can increase the overall guidance a little higher but we still are looking at the next quarter or so before we can really see that this impact will be sustainable for the entire year so that is the reason why we would not change the guidance at this point in time but we can always revisit it in a quarter or two later moreover the absolutely EBITDA.

Amarnath Bhakat: Can we expect a little bit increase on the guidance at least for the next year considering what has happened in Q1?

B Ravi: Yes so we will look in the Q2 and maybe the third at least the Q2 end and see how the proportion will happen for the Q3 and Q4 and we can definitely do it when we have the next call. At this point in time, it is too early to really say that it will have a permanent impact for the entire year. That is that reason why the guidance has not changed at this point in time. The absolute EBITDA definitely would be increasing margins as we always say are not really relevant 26%, 28% and 30%. These are not what is exactly the way to look at it because the new products that will be added ECH and CPVC have a better asset turnover ratio and because of which the EBITDA margins may be low but the absolute EBITDA will be increasing so as far as the cash flows and those are concerned I think we are still very much on course to be achieving our guidance maybe a little better because of the Q1.

Amarnath Bhakat: Follow-up relating to this guidance itself you are saying 50% expected growth compared to 2022 base which is anyway high. Now if I look at your capacity utilization your caustic soda 104%, caustic potash is 130%, this chloromethane and the new plant and the others are too little lower but at least 50% will come from where? You are already running at a higher capacity utilization level and the two new plants which is coming it will take time to really contribute meaningfully at least for the current year so this 50% growth and as we all know the commodity prices globally is shrinking which will always have a negative impact in terms of the realization so one side I am already working on an optimal capacity utilization even more, my realization is expected to come down compared to what is there in the Q1.

The two new plants which has been now commissioned which will take time to really contribute meaningfully so from where this 50% will come?

Maulik J Patel: I think that is right that the all the price of the raw material is coming down so finished goods eventually will go down but when we finalize this budget at that time I think we have given a forecast based on the three projects one is ECH because we expect that the ECH volume will pick up from Q3 onwards. Even CPVC which is also new project that volume also will start picking up from the Q3 onwards so Q3 and Q4 will generate the CPVC and the ECH revenue along with the caustic soda expansion which we are starting by Q2 as we mentioned in end of Q2 because that we already producing caustic soda of 294,000 tonnes per annum capacity and which will increase to 400,000 tonnes per annum so that we do not need a time to increase or to reach at optimum level because we already having a experience of so many years so definitely and we have already the approval place in the customers and everywhere so definitely the volume will start picking in terms of the caustic soda also so all three projects put together we have suggested that we will increase by 50% revenue.

Amarnath Bhakat: Okay it is very nice to hear that because 50% on the top of the current cell growth is very optimistic, it appears to be but if it is achievable it is nothing like that? Is this is vision statement?

Maulik J Patel: As you rightly said the prices of the raw materials are down but the current situation we feel that in China there is a lockdown and there is too much pressure right now so we would like to wait one more quarter and then probably comment about the entire year and energy prices have not come down so the caustic price also that there is a high chance that will remain continue for the entire year.

Amarnath Bhakat: Sir my second question is relating to your vision statement though I realized that is a finally the vision statement but you are talking about achieving a revenue of Rs.5000 Crores by 2027 so by the end of 2022 it was Rs.1500 Crores, so 2027 five years down the line you wanted to make it more than 3x. Now though we understand that you are going for a high value added products like CPVC and ECH and all but achieving three more than 3x in next five years where most of the items are commodity we do not have a real visibility of how the prices will pan out. There are so many underlying volatility either locally or globally I just trying to gauge and trying to sense how this can be achieved? It is just an overall vision not to go to the details because in a commodity dominated market a company giving 3.5x kind of an increase in revenue in next five years is very, very uncommon that is why I am asking this question?

Maulik J Patel: Yes that is a good question. When we have given Rs.5000 Crores target so we have in the mind that currently we have a chlor-alkali complex and this is the last phase of expansion which we are doing it for the caustic soda from 294,000 to maximum of around 400,000 right now but after that all the focus we are going to have in the downstream product which is value added product either from chlorine, hydrogen or caustic soda so definitely as a company if you see our past three years since then we have changed the strategy we would like to focus more as an integrated player and we are continuously focusing and adding the molecule which is import substitute so definitely as you rightly said that the recession, the global thing and everything is I completely agree but in terms of India we are still there are many chemicals which is completely import substitute and if you see the volume of all the chemicals which is growing so definitely globally when we add the product definitely our target is export as well like the chlorotoluene as we are expanding but our primary focus is the import substitute molecule based on the domestic market and domestic demand. Definitely, it gets added advantage like the ECH we started with the domestic demand but we are exporting right now. The same thing definitely in the other products also we will continue but the domestic I think we believe that India will be better off compared to whatever happens in the world definitely the price pressure, the impact, the competition will come but in terms of the volume of the chemicals definitely we are continuously increasing since last three years. Any chemicals if you see it is in more than double digit growth. Definitely more than double digit growth it will not come in the future due to the global recession but at least single digit will grow so we are not in the place where the market and the demand will diminish like or we are not growing so definitely the growth percentage there would be changes in the future if the recession will come in the future but in terms of the volume ultimately we will increase in terms of the chemical consumption in India and based on that we are saying that we are coming with a new project which is import substitute and as a derivative of the chlor-alkali and as we announce and we stabilize the CPVC each year definitely we will announce more projects in coming time.

Amarnath Bhakat: Thank you very much for this detailed answer and my last question is in respect of though you are now going to produce the CPVC which is import substitute now how an investor get a confidence the quality of the product which you are going to produce will be either same or better than what is being imported because now here we are talking about a product which has never been manufactured in India? It is the first time you are manufacturing? Now how much confidence you are getting from your customer like Astral or Hindware or whoever is producing the pipes here who use the CPVC that there is an optimum chance for you in terms of the quality and other factor that this product manufactured within India will be easily replaced? The imports in terms of quality, in terms of cost, and in terms of acceptability because I am sure even though the plant is commercially started now you guys might have already did the market research? You might have already touched with your customers to see how the product is coming, how they are acceptable and what is the feedback at the moment?

Maulik J Patel: Yes this is a good question. If you have asked three months back it is very difficult for us to answer this question but now I can say that after commissioning of CPVC and the different customers have started trialing of the CPVC resin in their machines we feel more confident now and the actual quantity will increase from Q3 onwards so now we are getting more positive about our product what we produce right now and we are more confident that the Q3 onwards the volume will start increasing.

Amarnath Bhakat: So it will easily replace in terms of quality of what we are getting from the imported items?

Maulik J Patel: If you do an analysis well of the CPVC market in India there is no replacement required. Indian market is continuously increasing double digit growth and the worldwide there is no capacity expansion of the CPVC resin so we are not going to replace anyone. The people who are growing they require additional resin we will supply them.

Amarnath Bhakat: Yes but this additional resin should be as part of the quality of what they are importing right?

Maulik J Patel: Definitely, it is at par, quality will not be at par with anything then definitely the customer will not be able to buy so as I said when once we started commissioning and we started trial order with a lot of customers we are more confident that we can able to start actually generating sales from Q3 three onwards.

Sanjay Jain: We actually have been seeing the accessibility in the market already and as the months go by as we said 45 days and all we will see more and more people accepting this product and that is the reason we are saying that the sales will start from Q3. Yes the product has been and continues to be accepted in the market in terms of quality.

Amarnath Bhakat: That is pretty good and the one bookkeeping small question. The fixed asset increase from 2021 to 2022, 2021 it was 1200 something, in FY2022 it was 1657 whereas your depreciation increased only from 74 to 86? It is not really matching? I do not know depreciation increase is quite lower compared to the value of the fixed assets increase between 2021 and 2022? It is a little bookkeeping question just to understand the clarity on this?

Sanjay Jain: Just to answer your question about the depreciation and if you look, we are continuously putting our plants and commissioning the plants one by one like we have commissioned in

2019 and 2020 CMS. In 2020, we commissioned the caustic so the impact since the commissioned in the mid of the year so impact is not for the full year basis but yes if you look at the numbers looking to the useful life based on the operation and maintenance and everything we have the considered depreciation well in line with the useful life of the asset is well within the industry norms.

B Ravi: Not all projects would have been commissioned at the beginning of the year so obviously the depreciation only kicks in when the commissioning of the projects happen so while the total block might look bigger but the depreciation will only happen in full strength once all the projects have been commissioned which will be this year.

Maulik Patel: Yes so till that time you commissioning the interest and the interest part and the other part you cannot see in the depreciation part yes. After commissioning I think you can see the actual depreciation so all the capex which was on the pipeline.

Amarnath Bhakat: Thank you very much for your detailed answer. Thank you.

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

Deepak Poddar: Thank you very much Sir for the opportunity. Sir I just wanted to check now this 18.5 megawatt solar plant that we expect to commission by Q3 so what sort of savings we are expecting from it?

Maulik J Patel: At least right now we are getting a power from the grid and the captive power plant definitely that much amount of the units which we are generating from the renewable definitely it will save around more than 30% of the power cost.

Deepak Poddar: Would it be possible for you to quantify in rupees Crores annually what sort of savings we can have there?

Milind Kotecha: See that can be measured in a way that out of 18.34 megawatt generally because it is a green energy and maiden solar power plant it works on 50% so we would be getting around 10 megawatt on a yearly basis so we will be saving around 30% and I am sure you can calculate that in a better way.

Deepak Poddar: Okay so 30% on.

Maulik J Patel: Yes.

Deepak Poddar: My second question is a now new plant you mentioned will meaningfully contribute from maybe Q3 in terms of incremental volumes and by Q4 you expect it to reach optimum capacity utilization by Q4 FY2023 that is what you mentioned?

Milind Kotecha: Yes for epichlorohydrin plant we expect that by Q4 FY2023 we will reach to optimum capacity utilization and for CPVC it is be end of Q4 or early Q1 FY2024 will reach the optimum capacity utilization.

Deepak Poddar: So what sort of incremental revenue one can expect from these two new plants ECH and CPVC? Now I think currently we are doing around Rs.500 Crores to Rs.550 Crores right so can it add Rs.100 Crores to Rs.150 Crores quarterly basis so some guidance on that would help if once we reach the optimum capacity?

Milind Kotecha: Once we optimum capacity utilization which I said earlier will happen in Q4 and Q1 for this year and next year so once we reach there all put together it should be somewhere around Rs.1300 Crores to Rs.1400 Crores put together Rs.1200 Crores to Rs.1300 Crores.

Deepak Poddar: Rs.1200 Crores to Rs.1300 Crores annually right so quarterly we are talking about maybe Rs.300 Crores additional revenue from these two projects right?

Milind Kotecha: Let me put it like this. FY2022 we ended with the Rs.1500 Crores of topline so this year additional revenue of in terms of volume will be growing by around 18% to 20% and that will be coming from ECH, CPVC and the additional capacity of caustic soda but again this year we will be not running on a full capacity because we have just commissioned the plant. It takes time for it to reach to optimum capacity utilization so once we reach optimum capacity utilization which will be happening at FY2024 onwards then ECH and CPVC put together should be around Rs.1200 Crores to Rs.1300 Crores.

Deepak Poddar: So in FY2024 only but these two new plants can give additional revenue of Rs.1200 Crores to Rs.1300 Crores right?

Maulik J Patel Yes but this is based on the current raw material which is and the current prices are going on so if the future is major impact on the raw materials and the prices definitely the sales price will adjust accordingly.

Deepak Poddar: Regarding your margins outlook that you mentioned do we expect any kind of drag while these two new plant are suboptimally utilized maybe in Q3 or Q4 so that may result in some kind of drag on your margins that is the reason we are kind of looking at 26% plus or minus 2% as compared to 35% we reported this quarter?

Milind Kotecha: When we have given a guidance of 28% plus or minus to EBITDA margin that is for a longer period of time. It has nothing related to the current commissioning of the ECH and CPVC so in this quarter also the prices that were in Q1 if that kind of situation maintains we can make the margins of 31% to 32% but we know the current prices are elevated and it will go down to some level and that is why on a conservative side we are saying 28% plus or minus 2% but if Q1 kind of situation continues then we can maintain margin above 30% also so it has nothing to do with the commissioning of the ECH or CPVC in that matter.

Deepak Poddar: I got it. I understood. That is it from my side. All the very best. Thank you.

Moderator: Thank you. The next question is from line of Amit Vora from Dr. Amit Vora's Homeopathic Clinic. Kindly proceed.

Amit Vora: Good afternoon everyone. My question is regarding the new products ECH and CPVC. Now I have heard you somewhere on CPVC that you told that if ECH sales can go to around a Rs.1000 Crores annually? Did I hear it correctly from here? Is it right?

Maulik J Patel: Yes so ECH it can go there that level based on the current model prices on when we reach to optimum level of the plant.

Amit Vora: Can you give something similar figure on CPVC also if possible?

Maulik J Patel: CPVC we have along with the commissioning we have given guidance that when we reach to optimum level we can reach to around Rs.400 Crores based on the current raw metal prices yes.

Amit Vora: Per year CPVC?

Maulik J Patel: Yes per year on optimum level when we reach yes.

Amit Vora: Currently our ECH capacity is 58 KTPA and CPVC is 30 KTPA?

Maulik J Patel: That is right.

Amit Vora: In future one or two years down the line can we expand it further also? Is it possible?

Sanjay Jain: Yes so it depends on at that point of time what is the situation but yes this that is definitely that is the always like the caustic soda what we have expanded based on our strength what we have based on the demand which we have so definitely once we have definitely these two products have a very high chance in the future we might expand but then it is time to look at the scenario and that time that depends on the return what we are generating or do we have a better opportunity from some other products so we might select that product as a priority in terms of capex.

Amit Vora: I got that. I understood that and there are new people and there are people who are coming up with ECH and CPVC manufacturing new companies so do you see that affecting our sales anywhere down the line?

Maulik J Patel: Normally yes definitely because India is a growing country and the many people can come in the future because the demand is growing so if demand is growing and if you are not able to fulfill the demand then definitely somebody else will also look at it as an opportunity in the market but looking at the current scenario the demand of all the products which is growing in India and if the people are come definitely still we are short. There are huge differences in terms of supply demand right now if you see in the CPVC but definitely and the ECH also looking at the future capacity which is expanded by the epoch series in manufactures so there is a huge opportunity in terms of the capacity addition in both the products.

Amit Vora: My second question almost the last question the debt by the end of this year where do you see the debt by the end of this year FY2023 end?

Sanjay Jain: FY2023 around long term we may be around Rs.550 Crores long term debt.

Amit Vora: Currently it is Rs.900 Crores or something I think so?

Sanjay Jain: Long term debt currently is Rs.690 Crores which is going to reduce for the year as a whole. That is on March 31, 2023 around Rs.550 Crores.

Amit Vora: Any other foreseeable risk in any of our products that you see currently CPVC, ECH or chlorotoluene or anything any foreseeable risk that this could be risky for us probably not sure but?

Maulik J Patel: As of now I do not think so but I think definitely the world is looking after the what action is Russia is doing with Ukraine because of that the current energy cost and the current gas prices and current crude oil prices and the China lockdown such kind of scenario is very difficult to predict for a longer period of time so yes there is uncertainty in this kind of reasons it is going to be there and it will continue I think probably at least in Q2 and Q3 at least.

Amit Vora: Thank you so much Sir. Thank you so much. That is all from my end.

Moderator: Thank you. The next question is from line of Riya Mehta from Equitas Holdings Limited. Kindly proceed.

Riya Mehta: Thank you for giving me an opportunity again. I would just like to ask one question what would your depreciation on an annual basis considering or commissioning of CPVC and ECH as well as the incremental caustic for FY2023 and as well as FY2024?

Sanjay Jain: With the full operation when we commission all these plants the decision annual basis will be around Rs.120 Crores.

Riya Mehta: Rs.120 Crores and what will be the impact for the rising interest rate currently?

Sanjay Jain: Yes interest rate has literally gone up but for the company as a whole which was till FY2022 which was sub 7% it is the range of 7.5% for this quarter onwards.

Riya Mehta: Could you repeat the debt numbers actually I missed?

Sanjay Jain: The total debt of the company long term debt was Rs.690 Crores for June 30, 2022. For the year as a whole that is March 2023 that will be reduced to Rs.550 Crores.

Riya Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from Pfizer Global Services. Kindly proceed. As there is no response we will move on to the next question. The next question is from the line of Keshav from RakSan Investors. Please proceed.

Keshav: Good evening Sir. What is the maintenance capex currently and going forward once we stabilize the ECH and CPVC as a percentage of gross block if you could tell?

Sanjay Jain: Looking to the size of where the company is going we expect that 2% of our total gross block need a maintenance capex on a yearly basis.

Keshav: Currently what is it Sir if you could give the figures for the last year?

Sanjay Jain: It is around 1.5 sort of thing as of now.

Keshav: Okay thank you Sir. That is all for me.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Kaushal Soparkar: Good evening everyone. In conclusion with all this we are moving in line with our commitments of long-term goals and with focus on environment and sustainability. Once again thank you ladies and gentlemen for joining us today. If there are still unanswered questions please feel free to reach out to IR. Thank you everyone for participation. Have a great evening ahead stay safe and stay well. Thank you.

Moderator: Thank you. On behalf of Go India Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.