



# “Meghmani Finechem Limited Q2 FY2023 Earnings Conference Call”

October 20, 2022



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**Moderator:** Ladies and gentlemen good day and welcome to Q2 FY2023 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 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 touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Kruti Patel from Go India Advisors. Thank you and over to you Kruti!

**Kruti Patel:** Thank you Neerav. Good afternoon everyone and welcome to the Q2 FY2023 earnings of Meghmani Finechem Limited. We have on the call Mr. Malik Patel, Chairman and Managing Director, Mr. Kaushal Soparkar, Managing Director, Mr. Sanjay Jain, Chief Financial Officer, Mr. B. Ravi, Strategy Consultant 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 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 Patel:** Thank you Kruti and good afternoon everyone and welcome to the call to discuss MFLs Q2 FY2023 performance. I trust you had the opportunity to run through the earnings presentation, which was shared earlier today. The chemical industry in line with global markets has witnessed cooling off on account of steps taken by the central banks to cool off the inflation. In line with that prices of many chemicals have dropped, but the chemicals, which are based on energy as a raw material are still at elevated price considering the energy crisis in Europe. In case of caustic soda, ECU is high on account of energy crisis due to the reduction in chlorine consumption in the global market and output of caustic soda also has reduced.

Similarly, on account of high natural gas prices even realizations of hydrogen peroxide has moved up. In the first half of FY2023, we have commissioned all our committed expansions Epichlorohydrin, CPVC raising and additional capacity of caustic soda within the timeline and the capex limit. We have started receiving approval from customers for ECH and CPVC and we expect that the sizable volume of both these products should be visible by end of Q3 FY2023 or starting of Q4 FY2023. The capacity utilizations of the additional capacity of the caustic soda commission on September 30, should reach to its optimum in Q4 FY2023.



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Even after the current market dynamics, we are confident to achieve the guidance that we had given for FY2023. Expansion of Chlorotoluene and its value chain is moving within the timeline and should be ready by Q4 FY2024. In the first half of FY2023, we had entered into the JV with Renew Green Energy Solutions to set up hybrid power plants to meet our energy requirements for existing as well as future projects. It is a step towards the contributing to the environment. With the commissioning of the new projects, we are moving in line with our strategy to strengthen our position as fully integrated company catering to diversify industry.

From here on we are further going to add downstream chemistries where chlorine, hydrogen and other chemicals will be used as a raw material to further strengthen our integrated product positioning. Our focus is to identify molecules and the chemistries which will provide us better margins and our extension to our existing product portfolio. To this extent, we are setting up a dedicated R&D facility which will be ready by Q2 FY2024. With our long-term vision and the future expansions in mind, we have invested in additional piece of land in Dahej, which is 2.889 lakh square meter land and it is the close proximity to our existing plan. In Q2 FY2023, we have redeemed preferences of Rs.12 Crores and our target is to pay the full amount in five years' time by FY2027. 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. Good afternoon. Q2 FY2023 was a very good quarter for the company, the company delivered a strong financial performance. We have seen a record high revenue of Rs.556 Crores this quarter with a sales growth of 64% Y-o-Y basis. The growth in sales can be attributed to high realizations from all the products. For H1 FY2023 Chlor-Alkali contributed 75% of revenue and derivative segment contributed 25% of the revenue. Chlor-Alkali segment grew by 86% vis-à-vis on account of higher realization and derivative segment grew on account of higher volumes as well as higher realization particularly H<sub>2</sub>O<sub>2</sub> hydrogen peroxide. In absolute term EBITDA grew by 79% year-on-year basis and stood at Rs.180 Crores with 32% margin on account of higher realizations. Our PAT grew by 95% year-on-year basis to Rs.92 Crores with PAT margin at 16%. Capacity utilization for Chlor-Alkali stood 85%, Chloromethane stood at 104% and Hydrogen Peroxide stood at 97%.

On Y-o-Y basis, our ECU realization for caustic soda and caustic potash was up by 77% and 120% respectively. Return of capital employee of the company improved to 37% from 29% in FY2022 and return of investment from improved to 50% from 36% in FY2022. A long-term debt has reduced to Rs.856 Crores as on September 30, 2022 compared to Rs.909 Crores as on March 31, 2022. This is even after new borrowing for the newly commissioned projects. Consequently, the debt to EBITDA ratio has significantly reduced



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to 1.3x in Q2 FY2023 from 2.5x in Q2 FY2022. This just reflecting us better financial strength. With this, we can now open the flow for Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pratiksha Daftari from Aequitas Investment. Please go ahead.

**Pratiksha Daftari:** Good afternoon. Thank you for the opportunity. I just wanted to understand that on a quarter-on-quarter basis, our capacity utilization has gone down slightly, so how do we see this going ahead and how does the demand look like for the rest part of the year?

**Maulik Patel:** It is a great question and currently in the world, in the Chlor-Alkali manufacturing and the Chlor-Alkali downstream manufacturing in the world Europe, US, even in Asia, with the chlorine derivatives which is 60% of the chlorine derivatives are PVC, TDI, MDI and ECS kind of products which is infrastructure-related products in Europe and US because of the recession it is not moving, but in the same time the caustic soda demand is there. If you see them because of the energy price, high energy prices along with the Europe and US recession effect on the chlorine downstream everyone wanted to produce more and more caustic soda, so this is a scenario right now and the chlorine is in pressure so because of that the efficiency of the plant is not running because chlorine you cannot store. If you are not able to sell the chlorine or consume the chlorine, you are not able to produce the caustic soda, so that is why in the world right now if you do not have 100% utilization or the caustic soda plants are running little lower capacity right now, but the same time the caustic price are moving upward.

**Pratiksha Daftari:** What would be the realization for chlorine alone right now?

**Maulik Patel:** In the chlorine right now in India, it is much higher, it is Rs.8 to Rs.10 negative.

**Pratiksha Daftari:** Okay which was about Rs.4 to Rs.5 next to sometime last quarter?

**Maulik Patel:** Yes, so this is little higher on side, but in the same time when you have integrated and captive consumption of chlorine so it is on the advantage side.

**Pratiksha Daftari:** Understood well noted. On prices front, we are hearing that international prices have started going up in last one month or so, have we experienced similar trend in domestic prices?

**Maulik Patel:** As I mentioned, yes definitely India has the effect of the world market is growing to slow down, definitely the prices of lot of chemicals are going down except the caustic soda which we see in a majority of the chemicals it is going down.



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- Pratiksha Daftari:** Okay, so domestic prices on caustic are stable at about 48000 levels?
- Maulik Patel:** No that is the ECU, so the caustic soda level has in last couple of months because of I mentioned the reason the downstream and derivatives are not moving upward because of that the caustic soda internationally it is going up that is why the Indian price is also moving around 60000 odd around, so 48000 which you are saying that is a net realization after removing the chlorine relation.
- Pratiksha Daftari:** Okay, caustic right now would be roughly 50000?
- Maulik Patel:** 60000. It is the ECU, when we say 48000...
- Pratiksha Daftari:** So 60000 in caustic and consider in chlorine it comes down to 48000, 50000?
- Maulik Patel:** That is correct.
- Pratiksha Daftari:** You said that apart from it is the downstream products that demand is getting impacted, so for caustic demand is strong from which segment? Which sector the driving demand for caustic alone?
- Maulik Patel:** If you see caustic is very diversified industry definitely in some of the country it is alumina driven, so aluminum is one of the factor, but other than aluminum like if you see in the western part of India, the major industry is completely diversification, it is the Agro intermediate, pharma intermediate, in the world also caustic is considered as many consumption which is consumption-based chemicals also, like detergent also, like soap Industries also, like P&G, Unilever, they are going to consume the caustics irrespective of anything right, because consumption it is not going to go down, same time the paper industry is the water treatment chemical manufacturing in the world, everybody there is no effect of recession, so they are doing great and they are going to continuously consume the caustic soda which they are consuming, because of that I believe disparity is there.
- Pratiksha Daftari:** Understood. On power cost front, are we seeing any pressures there or since the realizations have gone down power cost is also expected to go down, what I understand coal prices have not fallen in that random?
- Maulik Patel:** The energy price is almost it is at par with the world standard right now so in last couple of quarters, there is not big change in terms of the energy, so it has not reduced a lot, again it has not increased a lot also.



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- Pratiksha Daftari:** Okay understood. Can we expect those inflated cost to sustain for sometimes?
- Maulik Patel:** Frankly speaking, we have no idea till what time it is going to remain, but at least we can see definitely next one or two quarters, it is going to remain as it is that is what we can see, we cannot forecast more than six months as of now.
- Pratiksha Daftari:** Makes sense. In terms of ECS ramp up that is the capacity that we just commissioned since most downstream product demand is getting affected; do we expect a similar situation for ECH and I just missed your opening commentary how soon do we expect to scale up production here on this facility?
- Maulik Patel:** The current situation like we have mentioned in the last quarter as well, our ECH will be ramp up the capacity from the January onwards and we will optimize optimum level of we will reach by end of Q4 and then the CPVC also we will ramp up from December of this Q3 onwards and optimum level we will reach at Q1, so that we are stick to it because many opportunities arise, because of the European energy prices and the situation, many downstream companies, it is not feasible so the caustic soda price in Europe is such that many downstream chemical is becoming unviable also, so there are opportunities also in the Europe and US and there are better realization also compared to Asia, because there are less manufacturers and some of the end applications still demand has gone up.
- Pratiksha Daftari:** Okay. Could you give me any idea as to what are the current prevailing prices for ECH?
- Maulik Patel:** Currently. It normally the ECH is going to be a contract-based prices, so we are right now discussing with index-based, contract-based pricing with the different customers in Europe and US, so definitely the realization on the contract-based prices are different than what I am saying it is what you can hear on the day-to-day prices of the commodity, but you can say that we can expect around Rs.180 kind of realization in terms of export what we are going to do it in Europe and US from next year onwards.
- Pratiksha Daftari:** Okay. What we would do contract time right, these are not the prevailing prices?
- Maulik Patel:** Yes it is index based, so definitely index will change, definitely this price will change and as of now if you see as based on the current index it is going to be around 180 kind of realization we are able to get it, but definitely it change with the index.
- Pratiksha Daftari:** Okay understood and have we exported any of our caustic or any downstream product this quarter, especially caustics?



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- Maulik Patel:** You mean in the market or a captive you are saying?
- Pratiksha Daftari:** Export out like as caustic exports outside India, is this part of export?
- Maulik Patel:** Because of the European current situation has a lot of people are started exporting from India or any part of Asia to Europe, because the realization is better, but there is a restriction also because you need to keep a storage and everything, the people who have an infrastructure, they are importing from Asia and definitely we are part of some of the consignment, which is going. It is a bulk requirement and big vessel are going from India so definitely we are part of some of the quantity which people has purchased. We have also exported out of that to Europe and yes, we have exported partial quantity, some of the quantities.
- Pratiksha Daftari:** Alright and any comments on the demand outlook from paper versus textiles particularly in India?
- Maulik Patel:** Textile is down; we expect that after Diwali I think it will start moving upward direction, because the cotton price is coming to a lower level now, now people are expecting after Diwali they will start their production again, but paper situation is positive because white paper where it goes majorly, the hydrogen peroxide where we are expecting good demand in the worldwide and all the paper companies or the paper chemical manufacturing companies they are doing great right now.
- Pratiksha Daftari:** Okay and any details about the capex plan on the land that we have recently acquired?
- Maulik Patel:** Recently, we have acquired a land that is we have kept in mind for next 10 years vision, so definitely next couple of years we are going to expand in the existing campus; we still have a land available and our focus is still to make more and more stronger our complete integrated complex, which is our philosophy, so we will move more and more downstream chemicals of chlorine or hydrogen peroxide or chloromethane we are thinking in the existing complex in next couple of years, after that we are thinking we will start working on the new land, which we have and that is the land which we have procured, we are not going to do anything in next three years' time.
- Pratiksha Daftari:** Okay and is this right next to our existing land?
- Maulik Patel:** Yes, it is one kilometer distance so there is a possibility lot of integration if you wanted to do it from existing land also possible, but yes we have not kept anything in mind right now what we are planning to do it in that particular land, but we are evaluating right now and



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probably at appropriate time we will announce, but current next two-and-a-half years, three years, we have 100% our focus will be to make our existing complex stronger and stronger.

**Pratiksha Daftari:** Okay, alright, thank you.

**Moderator:** Thank you. The next question is from the line of Rohit Sinha from Sunidhi Securities and Finance. Please go ahead.

**Rohit Sinha:** Just few questions. First of all as you mentioned that you are looking to go for the derivative products especially from the chlorine side. Since we have caustic soda and these are surplus obviously chlorine level, but going forward if you are looking for a derivative product for those, are we in a position to use completely these chlorine or would there be further requirement, just wanted to understand if any surplus chlorine would be required for those product or would it be a specialized chlorine derivative, so that our internal production would be sufficient for that?

**Maulik Patel:** Our strategy is very clear, we have reached to four lakh and capacity of caustic soda after the last phase of expansion, so in next three years our focus is 100% on the derivative side where our priority is to consume chlorine up to 85% of producing including the pipeline customers, but the 15% chlorine we are going to send to our consumers continuously, because any in the future in the backup something goes down in the derivative segment definitely overnight you cannot find the customers for the chlorine like what Europe and US customers right now is facing, they need to immediately reduce the capacity of caustic soda because of the downstream unit are not doing good, so that kind of situation will not arise that is why we would like to keep 15% to 20% flowing customers continuously, so 80% integration we are planning in next three years' time.

**Rohit Sinha:** Secondly, on the export opportunity, looking at the current scenario after this Euro crisis, are there any opportunity where we can do caustic soda export also or is that that kind of demand arising what you are seeing right now?

**Maulik Patel:** Yes, there is an export opportunity right now as the situation is very bad in Europe because of the downstream companies are not doing great so caustic production is not good enough so there is an opportunity but at least like you cannot do justice to one vessel because it is 10000 tonne kind of vessels type to export to make it feasible because of the current transportation cost, so two, three people combine they are doing sharing the quantity and people are doing it right now export and we are going to continue probably and from the western part of India, last two years people are doing this thing.





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**Rohit Sinha:** Okay. I was just looking at the possibility and the feasibility given the bulk community, is it feasible for us to do a large export also given the current scenario, but obviously there would be a heavy logistic costs also?

**Maulik Patel:** It is there, but if you see the current situation in Europe is worst, their energy cost has increased to five to seven times and the transportation cost after adding the transportation cost still it is feasible to make sense that you ship it to Europe because the current caustic price in Europe is around 1500 Euro to 1800 Euro.

**Rohit Sinha:** Okay, that is helpful. Lastly on the utilization level of the recently commissioned plant, where we have reached now and when we can expect the peak utilization level for these products?

**Maulik Patel:** You are talking about the Epichlorohydrin and CPVC?

**Rohit Sinha:** ECH and CPVC.

**Maulik Patel:** As I mentioned, we have started contracting with the European customers and the US customers. We are adding more infrastructure in Europe and US and I think we are going to sign a contract because this is a contract season for them, next year, entire year they sign contract in this season and we are talking with them and probably will start moving the volume from January onwards in Europe and as well as in US and we will reach optimum capacity by Q4 end in ECH and in the Q1 for CPVC.

**Rohit Sinha:** Sorry come again, Q4 FY2023?

**Maulik Patel:** Q4 for ECH and Q1 for CPVC, Q1 FY2024.

**Rohit Sinha:** Right now, our revenue mix is like 75% is Chlor-Alkali and 25% is derivative downstream correct?

**Maulik Patel:** Yes.

**Rohit Sinha:** With this focus for next three years on derivative product, where we see these mix going forward in next three years?

**Maulik Patel:** Our focus and our strategy was very clear, because right in the future now we wanted to expand only in the derivative segment, so definitely the derivative volume and the revenue will increase compared to the current percentage and our long-term goal is to reach around



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50%, 50% will be Chlor-Alkali and the 50% will be the derivative segment for next three years I am talking, again but next years we have vision but current looking at the current caustic prices it is not allowed to move the ratio, which we used to have in the past.

**Rohit Sinha:** Okay that is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Niraj Mansingka from White Pine Investment Management Pvt. Ltd.. Please go ahead.

**Niraj Mansingka:** Thank you. I just had a question, where did the bottleneck of caustic like today in India, ability to sell caustic or ability to sell chlorine and can you give some color on that side as well?

**Maulik Patel:** In India it is always the chlorine is a bottleneck, If you want to utilize proper your caustic plant definitely you have to be integrated player, you have to be consumed chlorine by downstream or by pipeline customers that is the only way you can increase your caustic consumption where India is and you can cater to an Indian customers, so chlorine is always a bottleneck why because this is the only situation in some of the countries where the feedstock like petrochemical feedstock like ethylene and propylene is not available. The country like US and Europe, the chlorine is not a bottleneck like what we have right now, because of the current recession situation, it is a bottleneck for the caustic production, but normally it is not in Europe anywhere, but in India, it is chlorine.

**Niraj Mansingka:** The related question one, will you be able to take advantage of the European price and how much demand of chlorine do you see in industry, because of which the caustic production itself will go up in India?

**Maulik Patel:** Caustic consumption is very important and India our chlorine consumption is not depending on one particular chemistry, which is like in Europe and US which is PVC or TDI or MDI. India we have many derivatives, India has a different segment, because India is more driven by the specialty chemical, more driven by the water treatment, consumption, more driven by the PVC plasticizer user, so India is slightly different than the other part of the world where the chlorine is consumed, so our focus of the chlorine derivatives on the PVC consumption indirectly because plasticizer which is used in the PVC industry which is a chlorine derivative, which is called CPW which is one of those major factors, another major factor is a water treatment chemicals, which is like sodium hypochlorite or hydrochloric acid which is swimming pool like where people use the chlorine derivatives, chemicals so all those chemicals are priority other than the chloromethane is another chemistry where India is very strong because the pharmaceutical and the agrochemical companies, they



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consumes lot of chlorinated organic solvents, India is slightly different than the other part of the world.

**Niraj Mansingka:** Got it, but related question, where do you see growth in those production in future for those chemicals like water treatment, chloromethane etc., and what range do you see both in percentage?

**Maulik Patel:** I believe that in India, I keep telling that India is now in a stage where every year we required a sizable like around 400 to 500 tonnes per day size of the plant is required in India, because of the caustic consumption as well as chlorine derivative consumption so India is at that stage where easily if one plant will come it is absorbed because of the different chemicals are growing, consumption is growing in India and because of the PLI scheme a lot of companies are putting lot of capex, which some of the chemistry was not available in India, which is coming like other chloromethane like chloromethane derivatives like PTFE is another molecule where people are consuming lot of chloromethane, another molecule like refrigerant gases which is air conditioning, now if you see in India air conditioning consumption is also increasing where people are consuming lot of chloromethane, so consumption in India definitely it will grow further from here, chlorine derivatives as well as caustic derivatives. One sizeable plant is required in India now every year.

**Niraj Mansingka:** Will you be able to take advantage of the pricing in the Euro because you would not have immediately a place to sell your chlorine, so just wondering that?

**Maulik Patel:** That is true, for some point of time definitely there is an overlap because everybody is not going in tandems along with the caustic soda and the chlorine consumption, but there is always a possibility, but eventually if you see in last 10 years or 15 years' experience I would say that eventually it is absorbed some point of time, but there is a possibility for the short term that is overlapping.

**Niraj Mansingka:** Okay great. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors Pvt. Ltd. Please go ahead.

**Chintan Chheda:** Thanks for the opportunity. First question is related to the chlorine production, so at full capacity of caustic of 421 KTPA, what would be our chlorine production and currently, how much is our chlorine integration and what is our pipeline change?



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- Maulik Patel:** After last phase of expansion, when we reached to optimum capacity, our chlorine consumption will be around 65%, so our goal is next three years we would like to reach at 80% that is a goal and that towards that goal we are working including pipeline customer.
- Chintan Chheda:** Currently, how much that would be?
- Maulik Patel:** It is around 60 to 65 including the ECH and CPVC will reach two optimum level by Q4 end.
- Chintan Chheda:** Okay and so during this Q2, what was the negative spreads that we were getting from the chlorine production?
- Maulik Patel:** It is 8000 to 10000.
- Chintan Chheda:** What are the reasons for such high negative spreads from the chlorine, last quarter it was around Rs.4.5 to Rs.5 a kilo?
- Maulik Patel:** This is a peak and from after Diwali it will further improve, I do not think so it is going further down, but it depends again on the caustic soda price will move again further then never knows how desperate people are for the chlorine derivatives to sell in the world market.
- Chintan Chheda:** Okay, The Chlorotoluene and other couple of projects that we have identified so will that take us to 85% kind of chlorine integration or we need to identify some more products over there?
- Maulik Patel:** Chlorotoluene is one of the product, but we need to do some of the other derivatives also in the future.
- Chintan Chheda:** Okay, so that will entail a separate capex plan, is that right understanding?
- Maulik Patel:** That is right.
- Chintan Chheda:** Okay. Thank you. That is it from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Envision Capital Services Pvt. Ltd. Please go ahead.



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**Alisha Mahawla:** Good afternoon. Thank you for taking my question. Just couple of clarifications, in some earlier calls you mentioned that ECH plus PVC plus the additional caustic soda capacity was about Rs.1000 Crores of revenue, at current realization will hold or if it is going to be higher and are we expecting to utilize the ECH to CPVC capacity by 2024 or will it be over two to three years?

**Maulik Patel:** I would say the caustic soda price is moving up, but the same time as I mentioned the chlorine derivative price is going down, so definitely more or less the revenue will be adjusted, there is minor change in that, but we can still reach to a close to Rs.1000 Crores along with the new caustic soda capacity.

**Alisha Mahawla:** Okay. Are we expecting this new capacity or it is largely which came in Q2 to be utilized over what period?

**Maulik Patel:** End of Q4 or beginning of Q1 next year.

**Alisha Mahawla:** No, I understand that that is going to volume will start contributing, what I want to understand is the incremental capacity that has come, let me put this way, the rest of our Rs.1000 Crores potential can you assume that it will all come in 2024 or will this take time till 2027 to be fully utilized?

**Maulik Patel:** It will start generating the optimum level from the Q1 FY2024 itself, so we have started getting the advantage from end of Q3 itself, but the optimum level I think we will reach in Q1 so I think FY224 itself you can see the reflection of optimum level of the capacity of all three projects.

**Alisha Mahawla:** Okay understood and also wanted to understand that while our EBITDA margin aspiration for continues to be 26% plus H1 has been relatively strong, so any new revenue change for the year?

**Milind Kotecha:** EBITDA margin what you said is right, for half yearly it was around 33%, so if the current kind of situation revolves and goes around then that kind of margin can be made, but again time is uncertain so it is difficult to say, but we state our guidance of 28% plus minus 2%.

**Alisha Mahawla:** 26 or 28.

**Milind Kotecha:** 28 plus minus 2 so 26 to 30.



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**Alisha Mahawla:** Okay, understood. Can you just re-share, what is the kind of competitive intensity in the ECH segment because I believe the demand was about 70000 to 75000 tonnes, now with our capacity what is the current demand and how much supplies they are currently in the market?

**Maulik Patel:** In India, ECH is the first kind of manufacturing in India, so Indian consumption is going up, but there is an opportunity right now in Europe and US because of the high energy prices and the shortage of the supply chain, there is opportunity also in US and Europe, so currently we are evaluating where our company is going to get advantage in terms of the realization and we are targeting those kind of customers right now.

**Alisha Mahawla:** Eventually, they expect the demand to be this capacity to largely sort of the domestic demand?

**Maulik Patel:** In Indian customers, they are increasing but we are going to be balanced in the long term if you say we are going to be around depends on the realization, but definitely we are going to cater to our domestic customers as well as the export Europe and US as well.

**Alisha Mahawla:** Okay and just one last question, what is the margin expectation for the new product ECH and CPVC region?

**Maulik Patel:** As I mentioned, right now the caustic soda price is very high, because of that all caustic consumption derivatives are not in a great margin, people are because of disposing and people wanted to earn maximum, which they are getting it from the caustic soda currently, but the long run we are expecting, we are able to get whatever we have given expectation of 28 plus or minus 2 we will continue in the longer run, but the current situation, in current environment, it is difficult because all the caustic soda prices abnormally high and because of that there is a high impact on the derivative which consumes caustic soda.

**Alisha Mahawla:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Dhruv from Vasuki India AIF. Please go ahead.

**Dhruv Joglekar:** Thanks for taking my question. I can see the financials that there is some redemption of certain shares of about Rs.12 odd Crores, is this the one held by Meghmani Organics and is there any roadmap for completing repayment of these and eliminating the intercompany transactions?



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- Sanjay Jain:** Yes, this is the Meghmani Organics only where we have paid Rs.12 Crores in H1, September 30 and with regard to roadmap company plan to redeem in next five years completely.
- Dhruv Joglekar:** Okay, got it. Thanks.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from DAM Capital Advisors Ltd. Please go ahead.
- Aasim Bharde:** Thanks for the opportunity. Sorry, this was answered, but I wanted to understand your strategy of ramping up CPVC resin volume, would it be more domestic focus or would you tap into the export markets as well and on the pricing bit, would you look to price is lower versus existing incumbent to gain market share or do you think that is not necessary because of the supply demand mismatch, at least in India?
- Maulik Patel:** CPVC is going to be 100% domestic oriented and we are focusing on that part and I think the volume in which India's demand is increasing and there is no manufacturing capacity available as of now, so we expect our focus is 100% on domestic only. The CPVC is a very unique molecule where the 50% of the world demand is in India, so when the 50% of the world demand is in India, you do not need to go out from India.
- Aasim Bharde:** Okay and on the pricing bit, how would you want to deal with that any rough sense on that front?
- Maulik Patel:** At par with the international suppliers which is happening right now, we are going to keep it with at par with that international supplies definitely plus or minus depends on the volume we are able to do that, but normally it is at par with the international suppliers we are going to keep it.
- Aasim Bharde:** Secondly, on the raw material level, what kind of sourcing have we tied up for it and I assume you would be procuring PVC and chlorine, right or are you making PVC as well?
- Maulik Patel:** No, we are making chlorine and chlorine is our integrated complex, with the PVC we are currently we are sourcing from outside.
- Aasim Bharde:** Okay and that would be mostly from the domestic players itself right or is there imports being tapped in that front?



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**Maulik Patel:** No, currently we are importing, but in the future we may start from the domestic supplier as well.

**Aasim Bharde:** Okay and on CPVC pricing currently you would be able to give a sense that has that come off in recent times given that PVC prices have collapsed in the last four months?

**Maulik Patel:** CPVC has an anti-dumping duty, even the PVC prices gone down so it is going to advantage to the manufacturing of CPVC manufacturer in India because the CPVC price cannot go to a certain price.

**Aasim Bharde:** But there has not been any pressure on the international markets, at the international market levels CPVC price is still relatively firm is it because eventually India prices will also get influenced by that right?

**Maulik Patel:** Whatever the manufacturers are there even though they are in pressure, they have a limited capacity and Indian demand is far higher than that so I do not think so it is going to happen the way you are explaining the situation here.

**Aasim Bharde:** Okay, actually it is not more of a theory basically I just wanted to understand that right now what the current situation is, my takeaway is that there is no pressure on CPVC pricing as on date.

**Maulik Patel:** Definitely customer has a right to negotiate with us, but there is actually it is not actual pressure.

**Aasim Bharde:** Thanks a lot for answering my questions.

**Moderator:** Thank you. Next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

**Vignesh Iyer:** Regarding the new capacity, there is some as one lakh tonne capacity of caustic soda for Meghmani Finechem, also the fact that Gujarat Alkalies in JV with NALCO captively as well bringing out the capacity of around 4.5 lakhs tonne, so I just wanted to know, would this create excess supply in the market by any chance in such a way that the caustic prices might see some pressure moving going down in Q3 or Q4?

**Maulik Patel:** It is a good observation, but normally if you see in the history, people are announced the capacity and people are commissioning the capacity, but it will take time in the chemical plants, to optimize it, as I mentioned it depends on how you are completely integrated in





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terms of the chlorine usage, so every company has a different strategy in terms of the integrated complex and the downstream chemistry and as well as the chlorine network, so it depends on that the situation will arise, what kind of situation will arise after some time, but as I mentioned in India every year we required one caustic soda sizable size plants and it can easily absorb in terms of caustic and the chlorine.

**Vignesh Iyer:** The rationale behind this was because Gujarat Alkalies has called that but in their investor presentation, we were shown that their caustic soda are presently running at 110% capacity, so we can fairly assume that high-amount of chlorine is getting absorbed, so that is why I was concerned if the new capacity more or less it could be in that way, but okay, but even can you give me an idea of what is the demand some pointed annual growth for caustic soda in India, if you can give for the next three years, four years, some internal calculation from it.

**Maulik Patel:** It is very difficult, caustic soda is a very difficult industry, because it is used in every small scale also, so we know the Chloro-Alkali capacity when it is coming, but we do not know the caustic consumption, how many caustic consumption has increased the consumption in the last couple of years of which we are going to do it but normally we expect that as per the Indian economic GDP growth, the caustic demand is growing in India.

**Vignesh Iyer:** Can you give me a number like 5% or 6%?

**Maulik Patel:** As per Indian GDP, it is a growth normally based on our past 15 years' experience, so it is kind of 7% to 8% growth is there in the caustic soda, but as chemical industries and specialty chemical companies and everything is growing and the consumption is growing definitely it is at par with the GDP growth.

**Vignesh Iyer:** Okay, just last one question from my side. On part of a Chloromethane, if I actually produce as chloroform as well which has been used in a few gases because eventually used in PTSC because as a fueling part of it is very much in demand today across 5G and solar, so are we contemplating anything similarly or because MDC prices have some downside pattern, so are we contemplating that there is some possibility that we come up with a facility or something like that?

**Maulik Patel:** As I mentioned indirectly and directly, we wanted to consume chlorine in next two years, but as of now we have not finalized anything which downstream of chloromethane or any derivatives which we will creep. Once the board will be approved, definitely we will announce at the right point of time, currently we are evaluating a different projects, which will increase the integrated in our completely integrated complex.



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- Vignesh Iyer:** Thank you. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Dr. Amit Vora from The Homoeopathic Clinic. Please go ahead.
- Dr. Amit Vora:** Good afternoon everyone. My question is related to this current global slowdown, is there any effect of this global slowdown on our company or you might see in future something like that?
- Maulik Patel:** Because of the global slowdown and definitely eventually it affects the prices of internationally whatever it is and it is eventually effect and come down based on the current prices which is going down all the chemicals, definitely it affects us, the same time some positive like Europe situation, caustic we are seeing the positive sign, so we are getting advantage of positive also, there is effect on the end-application base, but global effect will be not in a different, we are less impacted, but eventually it is impacted and the price will be reflected in the Indian chemical industry as well.
- Dr. Amit Vora:** The sales have grown from quarter-to-quarter, but the profits have not grown, so can you tell me what could be the reason for this, margins also almost have been same 32% from last quarter as compared to this quarter, so what is the reason for that?
- Maulik Patel:** If you see that way, the sales had gone up that is because of the pure high realizations that we have enjoyed and in terms of the margin has slightly moved down Q-on-Q basis that is purely because the realization if you see the caustic soda realization marginally had gone down whereas the raw material price had remained intact in that category only so in that case 35% which was last quarter it has moved to 33%.
- Dr. Amit Vora:** The margins?
- Maulik Patel:** But the current margin which we are enjoying 33% which is anyway it is on the higher side anywhere longer term you can consider 28 plus or minus 2%.
- Dr. Amit Vora:** Yes, my last point is that will you still stick to your target of 5000 Crores company by 2027? Which is slow down and all these things?
- Maulik Patel:** That is the primary thing and day in and day night, we are working on that line only and our strategy is all strategies towards that line only and we are still stick to the same target of FY2027 will reach to 5000 Crores.



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- Dr. Amit Vora:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Bobby Jay from Falcon. Please go ahead.
- Bobby Jay:** I have a question in ECH. Your strategy of selling it for exports as well as domestic I am not quite clear on that because the opportunity looks like it will be in India because that is one of the few countries where construction industry is actually growing, so why would you focus on exports when there is a global slowdown and PVC prices are already crashed, so what is your rationale for even focusing on exports?
- Maulik Patel:** As you rightly said volume is increasing in India as well, but currently the environment in the international is different because of the high energy cost and in the Chloro-Alkali industries mismatch so there is a current, there is a high opportunity in Europe and US as well so we are looking for both, we are working on the both strategy domestic as well as exports.
- Bobby Jay:** The energy crisis is only in Europe it is not in the US, the US still has some of the cheapest energy prices in the world and there the PVC prices are falling.
- Maulik Patel:** You are right, but the caustic price is up because of Euro that is why country like India and US also the caustic and chlorine price is all time high right now.
- Bobby Jay:** But ECH prices would not be high, because they are driven by the construction industry right?
- Maulik Patel:** That is not the only reason because the caustic soda price is so high, so people wanted to encash that situation that is why the ECH and the PVC and all the chlorine derivative price is lower. If they do not produce or consumes chlorine derivatives then they are not able to produce caustic soda, so just to encash on the caustic soda people are manufacturing and reducing the price of chlorine derivatives right now in the world.
- Bobby Jay:** What is the differential between ECH prices in Europe and India, is that a big differential after including freight costs?
- Maulik Patel:** It depends. Situation in Europe is different and US is different, every segment is different, US is only a single manufacturer for the ECH manufacturing, in Europe there is a couple of manufacturing, the situation is differ based on how many competition you have and what is the restriction from other countries you have.



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- Bobby Jay:** My question is, is it that much more advantageous to sell in Europe versus India?
- Milind Kotecha:** In terms of like revenue as we have opened our plant, we would always like to diversify our business so that is why we are going to get into domestic as well as the export market. Now it depends on the realization so you are looking at the current situation we are getting bit higher relation over there but even if it is similar we would like to keep diversified so we have de-risked business model in that way.
- Bobby Jay:** Okay, the ECH you are producing through glycerol correct, in Europe, they are used propylene mostly and the US, so does that give you an advantage?
- Milind Kotecha:** Sorry, what was your question?
- Bobby Jay:** The ECH you are producing is through the glycerol route; right.
- Milind Kotecha:** That is right.
- Bobby Jay:** In Europe they are using propylene mostly or they are also using glycerol in Europe and US?
- Maulik Patel:** Europe and US always is propylene base because all plants in Europe and US are very old plants so the new technology is only coming into Asia, Asian manufacturing.
- Bobby Jay:** Does that give you a price advantage?
- Maulik Patel:** There is no comparison, but all the new technology which is better in terms of environment, because it is better in terms of water consumption, in the current time nobody is coming with a very old technology which is propylene based right now in the world, so everybody is focusing in this line in the future and, which is the green side technology so definitely it is commercially feasible then the old technology if you build up a new facility right now that is why people are selecting this technology, there is a lot of different advantage we have to manufacture from the glycerin compared to the propylene base.
- Bobby Jay:** So it gives you a cost advantage over propylene?
- Maulik Patel:** Yes absolutely, if commercial it is not visible then people will not add the capacity, the way it is increasing in Asia.



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- Bobby Jay:** I also understand there is a lot of exports from China of ECH, they are also exporting to Europe how do you compare with that?
- Maulik Patel:** Yes, it is going on but that is a temporary phenomenon because I said caustic soda price is moving up and that is the only reason, people are moving and going out, but once the China domestic demand will pick up again they will not export, in the past if you see six month back data China was not able to export ECH much quantity because of the high demand of the domestic, so current situation is different they started doing the export, but I do not think so it will continue for a longer period of time.
- Bobby Jay:** Yes I agree with that but are you competitive currently with their prices?
- Maulik Patel:** Of course yes.
- Bobby Jay:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Pratiksha Daftari from Aequitas Investment Consultancy Pvt. Ltd. Please go ahead.
- Pratiksha Daftari:** My question is answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Dipesh Sancheti from Manya Finance Pvt. Ltd. Please go ahead.
- Dipesh Sancheti:** First of all congratulations for the good set of first numbers. I just wanted to know how much did we buy the 2.89 lakh square meters of land and how was it funded?
- Sanjay Jain:** We are funded with the internal accruals only.
- Maulik Patel:** It is completely purchased from the internal accruals only.
- Dipesh Sancheti:** Can you quantify the amount?
- Maulik Patel:** It is approximately Rs.160 Crores.
- Dipesh Sancheti:** Okay and what is the next line of expansion since we already had a little bit of reduction in debt as you mentioned in the starting comments, are we looking at any other next line of expansions because we have a land and there must be some flow to it?



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**Maulik Patel:** This current land what we have purchased not for the immediate use, currently where we are our campus we wanted to make it stronger and stronger and I think next three years we are going to expand in existing campus only and after that we will start using the new land which we recently purchased, so yes, we have many downstream chemistry which I mentioned based on the existing chemicals, which we produce, we are working on that and we will announce once the board will approve at the appropriate time.

**Dipesh Sancheti:** Okay that is it. Thank you.

**Moderator:** Thank you. The next question is from the line of Yogesh from Arihant Capital Markets Ltd. Please go ahead.

**Yogesh:** Thank you sir for taking my question. I had one question on CPVC, so just want to understand what would be the working capital requirement for us in the CPVC businesses, is it low high what would be that requirement like?

**Maulik Patel:** PVC business when you are buying a raw material is also you need to buy raw material, you need to pay in advance and same time the raw material is also when we are selling CPVC also we are our target is to within seven days maximum, so normally 30 days kind of inventory we have to carry and so that kind of working capital will continue, so it is not much higher, it is in line with the existing business cycle, so which is not something abnormal.

**Yogesh:** Our last question basically, is there any possibility of CPVC cannibalizing the PVC market going forward?

**Maulik Patel:** PVC is a completely different application and the CPVC is a hot water pipe application so hot water pipe application, there are no another usage, you have to use a CPVC, there is no replacement, PVC you cannot use, but many high-end apartments and everybody they also use for the cold water application, the CPVC pipe, but it is a niche segment where they are converting PVC also PVC into the CPVC application but for the hot water application it is going to continue, so PVC can be replaced by CPVC in some of the high-end only otherwise people do not want to use CPVC everywhere except the hot water application, but in some of the companies, some of the high-end apartments people use for the cold water application as well. In the cold water, there is a possible to cannibalize PVCs.

**Yogesh:** The last one question, the short term borrowing has actually increased in one of compared to FY2022, so that would be connected to working capital requirement?



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**Sanjay Jain:** Because with the new plant which we start a new product, so at entry level the overall operational has gone up, so that is the major reason compared to last year, working capital short term borrowing has gone up, little bit.

**Yogesh:** What would be the current working capital days for the overall company?

**Sanjay Jain:** Around 45 to 60 days for all the products.

**Yogesh:** It will be maintained for the next few years also in the same range 45 to 60 days?

**Sanjay Jain:** In the same range.

**Yogesh:** Thank you.

**Moderator:** Thank you very much. As there are no further questions I would now like to hand the conference over to Mr. Kaushal Soparkar for closing comments.

**Kaushal Soparkar:** Good evening everyone. In conclusion with all this we are moving in line with our commitment of long-term goal of Rs.5000 Crores by 2027 and with focus on environment and sustainability once again thank you ladies and gentlemen for joining us today. If there are still unanswered question please feel free to reach out to our IR team. Thank you everyone. Happy Diwali and Happy New Year to everyone. Goodbye.

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