



“Meghmani Finechem Limited  
Q3 FY '23 Earnings Conference Call”

January 19, 2023



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**MODERATOR:** **MR. ROHAN OHRI – EMKAY GLOBAL FINANCIAL SERVICES**



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Results Conference Call of Meghmani Finechem Limited, hosted by Emkay Global Financial Services. We have with us today; Mr. Maulik Patel, Chairman and Managing Director; Mr. Kaushal Soparkar, Managing Director; Mr. Sanjay Jain, Chief Financial Officer; and Mr. Milind Kotecha, Investor Relations.

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 star then zero, on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohan Ohri from Emkay Global Financial Services. Thank you, and over to you.

**Rohan Ohri:** Thank you so much, Michelle. Good evening, everyone. I would like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you, gentlemen.

**Maulik Patel:** Thank you, Rohan. Good afternoon, everyone, and welcome to the call to discuss MFL's Quarter 3 FY '23 performance. I believe you had an opportunity to view the earnings presentation that was released earlier today. Quarter 3 FY '23 has been an exciting, yet crucial quarter for us. We have achieved an 18% volume growth in quarter 3 FY '23.

In line with our target, Derivatives and Specialty segment contributed 31% to the revenue compared to 25% in quarter 3 FY '22. Our new products, which were commissioned during nine months FY '23 have started contributing marginally to our P&L and we expect this contribution to expand from quarter 4 FY '23. However, the full impact of this would have seen in FY '24.

CPVC product has been accepted by, all the pipe makers and because of that, we have reached 70% capacity utilization in the month of December itself. We expect to reach optimum capacity utilization one quarter earlier than projected quarter 1 FY '23.

Now we have good hold on this product chemistry and considering the growth potential, we are increasing our capacity of CPVC to 75,000 ton per annum by adding new 45,000 ton per annum capacity.

As we have basic infra required with CPVC expansion, we will be able to commission this project at lower capex and much faster compared, to the first project. This will also increase our internal chlorine consumption, which will strengthen our integrated complex further.

ECH product is also well approved by all the customers in India and in global markets. But currently, demand for ECH is bit subdued as market for the infra-chemicals is cooled-off as



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governments focus on inflation controlling. However, from the end of quarter 4 FY '23, we will start exporting ECH. We expect it will reach to optimum capacity utilization in quarter 1 FY '24, slightly later than what was conveyed at the time of commissioning of ECH plant.

However, in the long term, we expect this market to grow in double-digit percentage. We are happy to announce MFL's first interim dividend of 25% on face value of INR 10, which is 2.5 per equity share. And expansion projects of chlorotoluene and its value chain and R&D center near Ahmedabad is moving as per schedule.

Our additional capacity of CPVC raising will also get commissioned by quarter 4 FY '24, along with the chlorotoluene value chain and will start contributing to P&L from FY '25 onwards. With our expansion plans, we are moving in line with our long-term vision to become fully integrated complex, catering to diversify industries and grow consistently.

I now hand over the call to Mr. Sanjay Jain, our CFO, who will take us through the financials.

**Sanjay Jain:**

Thank you, Maulik. We are pleased to inform that we have surpassed all FY '22 full year's number, within the period of nine months of this year. On a year-on-year basis, our sales grew by 27% to INR 538 crores in quarter 3 FY '23. This is backed by higher volume growth of 18%. Chlor-Alkali revenue grew by 16% and derivatives and specialty grew by 62% year-on-year basis.

Our absolute EBITDA grew by 18% to INR 167 crores with a margin at 31% in Q3 FY '23. Our exclude PAT grew by 11% year-on-year to INR 77 Cr. However, increase in interest and depreciation with commissioning of new capacity, the PAT margin decreased to 14% against 17% in quarter 3 FY '22.

For Chlor-Alkali, we have achieved a capacity utilization of 68% on expanded capacities as the company had recently commissioned the additional capacity of 1,06,000 ton per annum in September '22. We expect the optimum inflation by the end of quarter 4 FY '23.

Caustic soda ECU relation on a year-on-year basis is up by 2%, while potash is up by 40%. For Chloromethane, the capacity utilisation stood at 104%. And for Hydrogen Peroxide, it is 82% in quarter 3 FY '23. Sales realization for Hydrogen Peroxide increased by 9%. The decrease in raw material prices in the line, sales ratio for Chloromethane dropped by 33% year-on-year basis.

For nine-month FY '23 period, sales grew by 55% to INR 1,626 crores backed by increasing sales relation and additional volume of CPVC and ECH. Absolute EBITDA grew by 60% to INR 134 crores with margin increased by 107 bps to 32.9%, and PAT grew by 80% to INR 277 crores.



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The return of capital employed of the company stood at impressive 35% and return on equity improved to 46% from 36% in FY '22. Net debt to EBITDA has improved to 1.3x in quarter 3 FY '23 from 2.4x in quarter 3 FY '22. With this, we can open the floor for Q&A. Thank you.

**Moderator:** We have the first question from the line of Riya Mehta from Aequitas Investment Consultancy.

**Riya Mehta:** So, my first question would be in regards to caustic. So, what kind of demand supply scenario are we foreseeing since there are a lot of companies coming up with their supplies and capacity addition? How is the scenario right now...

**Maulik Patel:** Currently, the caustic soda capacity, I think everybody is running on a good amount of capacity, around 80% capacity people are running right now. But in terms of the market, the export market which was there in last six months, it was a little low right now, but it is going to increase probably from the February onwards because everybody was expecting that after February, once the Chinese market will restart again, with again the export opportunity will arise globally because of the domestic Chinese consumption will increase after Chinese New Year, so that was the expectation.

And the chlorine market has improved a lot in last six months because when the caustic price was very high, that time the chlorine was very low. So, in terms of the ECU, we are almost plus or minus 5,000 level right now compared to past six months.

**Riya Mehta:** And in terms of chlorine, so basically, what are the chlorine prices right now? And how would we see this spanning out once China reopens?

**Maulik Patel:** So, chlorine right now is slightly on the positive side from zero level. It was negative a couple of months before, but now we are moving towards the positive side. And all the chlorine derivatives, we are expecting it is now going to pick up again after, from 15th of February onwards, yes.

**Riya Mehta:** My second question will be in terms of CPVC. So, since you're going with a new capacity addition. So, what gives us the confidence for this new capacity addition mix? What kind of demand are we seeing? And what -- how will this impact the debt level?

**Maulik Patel:** So CPVC, it is -- we have commissioned the plant four or five months ago and in five months, we have taken all the approval from the different users because it is not the product like caustic soda, which can sell starting, we can do it overnight to the customers. So, we have a lot of approval which took four months' time. And in the month of December, we got -- we have reached to a 70% production, along with the sales also more than 70%.

So, whatever we have produced in the last four months, I think we are almost sold off and we have order book of till March, next financial year as well. So, we are very confident in terms of the chemistry and the confidence in the team. And it is -- we are increasing based on the



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demand in India right now, India needs more CPVC and we have an experience of last six months and looking at the future of demand of CPVC, we feel that it is right time to expand.

And most of the expansion -- most of the infrastructure, which we have done in the Phase I itself. So, I think we can do -- very speed way we can expand the CPVC in a faster way. So, we have put all the energy in the CPVC expansion right now and we are planning to commission by quarter 4 FY '24.

**Riya Mehta:** And what would all this impact our debt level?

**Milind Kotecha:** See, in terms of debt level, currently, the debt that we have, which is somewhere around INR 850 crores in terms of long-term debt. So considering the CPVC also, the debt we might borrow few funds. But as we have conveyed earlier, we have a repayment schedule of at least 150 crores on a yearly basis.

So on a long-term basis, our debt would be around these levels only, it won't increase drastically from here on. And even if that does, as the capex will start contributing to P&L, our debt-to-EBITDA ratio, as you would have seen, has come to 1.3x. So, it should hover around that range only.

**Moderator:** We have the next question from the line of Manish Jain from Money Life Advisory Services.

**Manish Jain:** My question is regarding the capacity utilization of the newly commission projects, installation CPVC. And when do we expect the capacity utilization to reach by the end of FY '23?

**Maulik Patel:** Yes. So, as I mentioned in my speech that, the CPVC capacity we have crossed 70%, and we optimized level we have reached in the month of December itself, which is one quarter earlier than what we have discussed in the past. And in the same time, in the ECH, ECH normally it is -- because of the current market scenario, we are going to delay one quarter to reach our optimized capacity by quarter 1 next financial year. And we are going to start export the Epichlorohydrin from quarter 1 -- end of quarter 1 itself, yes.

**Manish Jain:** Can you quantify the capacity utilization for ECH?

**Maulik Patel:** It's very miniscule in the last quarter because most of the people in India, they have an annual contract from January to December. So anyway, this year -- beginning of this year onwards, people started talking with us. Even global players also started talking with us, beginning of January itself.

So yes, last quarter, it's hardly we have produced only -- we have reached -- we have sent all the samples and all the trial orders we have taken from all the customers, and we have approved right now in majority of all the global customers as well as the domestic customers and our domestic pharmaceutical customers that we have started getting approval because



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pharmaceutical takes a little more time to get approved. So now the -- at least we started with the small customers in India, which consumes epichlorohydrin for the pharmaceutical application here.

**Manish Jain:** Secondly, do you expect the down trend to continue in pricing for the chloro-alkali segment?

**Maulik Patel:** Yes. In terms of ECU yes, it is -- if you say compared to the last quarter, it is plus or minus 5,000 kind of level right now, it is there. It is hardly 2% on a quarter-on-quarter basis right now is lower. In terms of caustic prices, it is down. When the caustic price was very high, as I mentioned, chlorine price was very low. So in terms of ECU, it was not a big difference right now.

Yes, but it is on the down trend a little bit due to the lack of export orders recently, but we expect that it will improve after 15th of February, we started getting the export order as well compared to the past year -- in the last three months.

**Manish Jain:** Lastly, what are the downstream products you're planning to enter in the next three years?

**Maulik Patel:** So like in terms of volume growth, we are expecting this financial year, we will get from epichlorohydrin, CPVC first phase and the caustic expansion, which we have commissioned in the last six months, all the volume growth in current financial will achieve from this. And in FY '25, because quarter 4, we are going to commission a chlorotoluene its value chain, which is also first time in India, along with a CPVC second phase, which is 1.5x capacity of existing Phase 1 CPVC capacity, which will also commission by quarter 4 FY '24. So, in FY '25, we will get a volume advantage from expansion of CPVC volume as well as chlorotoluene.

**Milind Kotecha:** So just to add to that, what Maulik said, in terms of the volume growth, we will witness in FY '24 also in FY '24 also because the capex that we have planned, plus one thing one should notice over here is the new products that we are entering are high-value products compared to what we were earlier so that way with a small volume will give a good amount of value growth that will come along with the volume.

**Maulik Patel:** So these are the next two years capex, which, as you asked a question about other downstream. So our priority right now is CPVC and the chlorotoluene and its derivative. In chlorotoluene derivatives targeting roughly around 10 to 15 different products in the first phase itself. And for the second phase, we have started doing the R&D, and we are also creating R&D center next to Ahmedabad for the second phase of chlorotoluene. We have started working the R&D level right now...

**Moderator:** We have the next question from the line of Dipesh Sancheti from Manya Finance.

**Dipesh Sancheti:** One, I wanted to ask about, what are the sales of CPVC in this quarter?



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- Maulik Patel:** So sales for CPVC, you can estimate it would be -- the December, we have ended with a 70% capacity utilization. And on a quarterly basis, it would be somewhere around 40% capacity utilization.
- Dipesh Sancheti:** For this quarter, you have done only 40% or utilization, so what you are trying to say?
- Milind Kotecha:** See, the thing is commissioned in July. So, this product is something which takes time because we send to the customers, they trial and they test, then the pipe comes out, then they again test on that, so it takes time. So that's why in just a matter of five months, our product has been approved.
- And in Q3 FY '20, the capacity utilization is around 40%. And in December, we ended with 70% capacity utilization. And for the next quarter, we are fully booked for the production that we have.
- Dipesh Sancheti:** So, what calculation I was trying to do is, what do you expect that -- how much sales do we generate would we generate with the existing capacity? And when we add the new capacity, what is the sales which we are able to generate?
- Maulik Patel:** So roughly, you can expect on a full year basis, we can get a INR 350 crores in the first phase and INR 750 crores in the -- including INR 800 crores is including the second phase.
- Dipesh Sancheti:** So with 75,000 capacity, will achieve something like around INR 800 crores?
- Maulik Patel:** Yes, you can...
- Dipesh Sancheti:** What are the margins? What are -- roughly?
- Milind Kotecha:** So margins, again, are in line with the broad margin that we have for the company, which is 26% to 30%. So, considering for that matter, all products that we select is in this range and even the top line that we have specified of around, INR 800 that is considering the current prices, which is a kind of a bottom out situation. So, if the prices move up, we get a benefit of that.
- Dipesh Sancheti:** And going ahead, where do we see our growth coming from? Do we see it coming from so -- caustic soda, caustic potash, chloromethanes, hydrogen peroxide or do we see CPVC doing excellent? I mean, going ahead, as said, I'm talking about FY '24?
- Maulik Patel:** FY '24 growth will come in terms of the volume increase for epichlorohydrin and the CPVC first phase and additional capacity of caustic soda. These three will bring a volume growth in FY '24 and in FY '25 from the CPVC second phase and the chlorotoluene value chain. So, this next two years, our volume growth is coming from this kind of derivatives.



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- Dipesh Sancheti:** And do you have a volume target? I mean, generally, we always have a sales target in the next three years, we want to do this much? Are we revising that?
- Milind Kotecha:** See, in terms of volume growth, generally, one can expect considering the capex that we have done from Meghmani Finechem, one can expect the volume growth of around 15% to 20%.
- Maulik Patel:** Sales target the same.
- Dipesh Sancheti:** Sorry, I missed the last line. I'm sorry.
- Maulik Patel:** So volume growth is coming from this, but the sales prices depend on the price, which is not in our hand, but you can expect we will grow in terms of revenue by 25% to 30% year-on-year.
- Dipesh Sancheti:** Do we have a sales target of about going to INR 4,000 crores in the next three years, something like that?
- Maulik Patel:** Yes, you can calculate based on today's situation, yes.
- Dipesh Sancheti:** Also, with the new hydrogen policy, which has been announced are we planning -- do we have any plans to get into this? Because I see that hydrogen peroxide, we're already making. So I mean, maybe a separate question, but I just want to ask.
- Maulik Patel:** No, we make hydrogen from chlor-alkali which is coming as a core product like a chlorine and we are consuming for hydrogen peroxide, we are selling to the pipeline customers and we are selling also to the consumers right now. But there is no plan to add going forward for the hydrolysis, which is coming as a new policy, coming from water electrolysis. So, we do not have any plan for going for that. Our focus is very clear...
- Dipesh Sancheti:** You say generating hydrogen already. I mean...
- Maulik Patel:** Yes, it's a different it is not coming from chlor-alkali is coming from water electrolysis. So that hydrogen policy is something different than what we are doing right now.
- And our focus is very clear that, we would like to grow in the next three years in the derivative side of chlor-alkali and where we expect currently the revenue, which is the 25/75 in the last financial year, we are expecting in current financial it will be reached to around 68%, 32% and from next two years, we are planning to expand and capex what we have announced.
- Based on that, we are planning 50% revenue will come from chlor-alkali, 50% will come from value addition and the downstream industry. So that is the focus which we have.
- And the chlorine consumes on, which we are doing right now around 65% as a complex, which we are targeting after chlorotoluene and the CPVC expansion, which will be around 75% in next two years' time. So that is the focus which we are very clear for next three years.





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**Dipesh Sancheti:** Now from last quarter to this quarter, in all our products, has there been any major price fluctuations in raw material or in our end product?

**Maulik Patel:** I would say in majority of the chemical and all the products which we are into, there is a price fluctuation, as well as the raw material change. Like in the CPVC also, there is a CPVC end product price chain along with the PVC has also price correction.

ECH also, there is a correction in the glycerin price as well as the ECH product as well. Same, caustic soda price only -- the raw material side is powered because the energy situation has not improved yet in the world, globally. So, there is not big fluctuation in terms of the caustic soda.

But in other products, you can see the major fluctuation in terms of the raw material side, as well as on the finished goods side, looking at the current situation in the global, yes. But we feel that at the same time, this is a bottoms out and I think the market will start picking up from February 15 onwards on the upward side again.

**Dipesh Sancheti:** And just last question about the power. Apart from how much is our captive power and what is our need and is there any major changes in the power cost?

**Maulik Patel:** No. So, power cost has not been changed much drastically slightly lower compared to the last quarter, but it is not a big thing. And we don't expect when it is going to change because it is totally depend on the global scenario, which is Ukraine situation and Russia situation. Nobody knows when it is going to improve.

But yes, but there is not a big major change. Only the change is, the project which we are targeting, we have invested green -- renewable green energy like solar and wind, which is going to commission by end of February and we are going to start getting advantage of lower cost of energy from end of March onwards. So I think you can consider the beginning of next financial year, we'll start getting the advantage of the lower energy cost from renewable energy, which we have invested.

**Dipesh Sancheti:** So, we don't see any major changes in the operating in our gross margins, and there won't be any major fluctuations because of price or because of any external thing also?

**Maulik Patel:** From this no, we don't see the major change is going to happen from this level onwards.

**Milind Kotecha:** We will maintain the thing that we have specified in terms of our margin.

**Dipesh Sancheti:** And if situations improve in Feb, then we will definitely there's a chance of only improvement, right?



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- Milind Kotecha:** Margins will not improve drastically from here on what we have achieved in the last nine months. It will be in the range of what we have communicated in terms of guidance, which is around 28%.
- Moderator:** We have the next question from the line of Niraj Mansingka from White Pine Investments.
- Niraj Mansingka:** Maulik bhai, a few questions. First on the caustic soda. Do you see the utilization of the industry at 80% because Gujarat Alkalies also started its plant and its large capacity? So whatever thing, would it not be impacting your margins even in the next one year because of the time of the capacity has come up?
- Maulik Patel:** So, Mr. Niraj, the caustic soda, and everyone knows when somebody has announced the capacity or somebody is commissioning a plant. But the user of caustic soda is like a potato of the industry. It consumes in every industry. So there are so many end users, every industries, every chemical, every agrochemical, pharmaceutical, raw material manufacturing it consumes. So, our consumption is also growing in the line of the GDP of the country.
- So as I mentioned, we need every year of one sizable caustic soda plant as our country is growing in terms of demand is growing. So, the application of caustic or is very scattered.
- But yes, in the meantime, when there is suddenly the capacity will come up and it will start up running because when the commission the plant is a different story and when you optimize and reach a desired level, it's a different story. So, every company reached to a desire level and optimized level in a different, different timings.
- So based on that, yes, the situation we need to discuss and we need to see and based on that, there is a supply/demand gap, there is an impact in terms of the overcapacity. But normally over a bit of time, country like India, it is absorbed over a period of time, the caustic capacity whatever people are done in the past.
- Niraj Mansingka:** So what was their capacity utilization now? I mean thought on that?
- Maulik Patel:** So right now, our capacity is around 1,100 TPD. And I think we are running around 900 TPD kind of level, yes.
- Niraj Mansingka:** And I ask GACL because that is a large capacity? As far as Gujrat Alkali?
- Maulik Patel:** That, we don't have any idea.
- Niraj Mansingka:** My second question is on your epichlorohydrin. When you had started a plant, you were targeting mostly the import substitution. And we are talking about exporting this product. And what we know is that there's a significant glass info that comes in. So why are you targeting the export market and where the domestic market is there? And is there some -- how much time more will it take for the customers to approve your production in India?



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- Maulik Patel:** So yes, that's a good question. Just wanted to know that we have a capacity where every user also would like to keep a two-vendors. So, they also don't want to depend 100% on us, that's why they are keeping two vendors. And we also would like to keep a balanced approach, and we are getting a little more margin in the export right now. So, we are focusing export as also a priority compared to domestic vendors.
- So we are going to be balanced. In the long run, our target is to be like 50% domestic and the 50% export that we are targeting in a longer period of time, yes.
- Niraj Mansingka:** But there's no supplier in domestic market, right, for ECH?
- Maulik Patel:** Yes. So, anyone -- any supply new supplier is -- there is no supply, but people would like to keep the balance two supplier at least minimum. So, they will continue the import and as well as the domestic vendor. And we'll also keep it -- our spread in the export market also where we are getting a little higher margin compared to the domestic.
- Niraj Mansingka:** So I ask this question is because I thought if the country imports product, the export margin should be lower than the domestic margin?
- Maulik Patel:** So it depends on the situation. Right now in the US, we are expecting because there are a single manufacturer in US, so we are expecting where we can get a little more margin than the domestic. So that's why we are targeting.
- So initially, when we set up a plan that we were not having any plan about export. But after analysis of the export also, there is a good opportunity in the US market. So we are exploring that also.
- Milind Kotecha:** So to add to that, what Maulik just said, even we are also adding in terms of selling to the domestic customers also. But one has to understand current situation, the demand of ECH has been impacted because ultimately, the epoxy that is made in India, it is also exported. So in that level, if the demand has been impacted, and that's where there is a slow growth. So we are focused on India market also as well as the export market considering the diversification we want to bring in our sales.
- Niraj Mansingka:** Another question on the capex. So on your hand, we only have two capex assets on the CPVC expansion and the chlorotoluene?
- Milind Kotecha:** Sorry, capex first, chlorotoluene and CPVC what?
- Niraj Mansingka:** There are only two capex that are left in your hand, right? One is the CPVC expansion that you just announced and the chlorotoluene.
- Maulik Patel:** We have this two and small R&D center, which we are coming up in near Ahmedabad our head office.



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- Niraj Mansingka:** So how much is the shipping expansion cost for the INR crores?
- Milind Kotecha:** INR 250 is for CPVC and 180 is for the chlorotoluene. So put together, it comes to around INR 430 kind of capex that we are into, that we have announced. But definitely, we have a road map ready that what we are going to do next. But as and when the management and the Board approves that, we will announce the future capex plan also.
- Niraj Mansingka:** Actually, you answered my next question only. But that capex is not large compared to the EBITDA that you are positioning right now and you're also going to see a scale-up of EBITDA. So was wondering where you are going to spend incremental or you want to repay the debt going forward. So what is your thought on that?
- Milind Kotecha:** So considering the current situation, if you see, this year also, we are going to do a capex of around INR 367 CR around INR 370 CR. That includes all the capex that we have specified, which includes the capex for the CPVC ECH in this year and the new projects. And also we have acquired a land of around 160 CR. And from the next year onwards, also the capex will be around INR 350 CR. So that is there.
- And what you said is right, as the new capex will start contributing to the P&L and the cash flow will start coming up. So we will start repaying our debt. So this year, like we started repaying our preference shares so we have paid that almost 12 CR. And even if the time when the cash flow supports, we will further reduce debt.
- But considering the capex plan that we have, I guess, the internal accrual will be used for the future capex plan. And even considering that we have also declared the dividend of almost 2.5 this year. So as cash flow supports, we will be doing all this, will be focused on everything, but the focus would be not to compromise on growth. That will be the first major priority in line with that reducing debt and paying dividend to our shareholders.
- Niraj Mansingka:** Okay. Last question on the chlorotoluene. Can you give some color on the products that you're going to bring down and how much revenue potential can we have a data?
- Maulik Patel:** So as I mentioned, we are targeting in the first phase, 10 to 15 different products of chlorotoluene derivatives. And in the first phase, we are targeting approximately close to INR 300 to INR 350 CR kind of revenue from the first phase.
- Niraj Mansingka:** And the margin perform be similar or higher on...
- Maulik Patel:** Yes. So normally, whenever we calculate any project, our target is to reach a minimum 25% ROCE.
- Moderator:** We have the next question from the line of Vibha Batra from Fair Connect Business Advisors Private Limited.



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- Vibha Batra:** The question is on the other non-current liabilities and current liabilities. Both of these have gone up significantly. Can you please give the breakup of these. This is Page 18 of your Page 17 as per the printed on?
- Management:** That is as on a half yearly basis. And for nine months, we generally don't, I mean it's not required. So we have not given the balance sheet.
- Vibha Batra:** What is the nature of the liabilities broadly, they add up to INR 500 crores.
- Sanjay Jain:** Other financial liability medially comprises of the accrued interest as well as unpaid expenses and the major is capital character because our project is ongoing in the company, as we are tract to expansion. So major component includes other capital crisis until expenses and the interest which has been approved but not being paid. So that is a major component of other current financial liabilities.
- Vibha Batra:** They have gone up by INR 100 crores in six months.
- Milind Kotecha:** See that you see the debt the inventory level, which has gone up, that is purely because the capex that we have done that is ECH and the CPVC, the raw material we have accumulated for that as we were planning to commission the plant. So that is why you can see the inventory which was 154 CR in FY '22, have moved to 266 CR year in H1 FY '23. But now as we have started the outflow of the finished good has started, the inventory level will be coming in soon in line with the normal levels.
- Vibha Batra:** And in terms of number of because you are in commodities. So there will be fluctuation in the prices. And therefore, even if you compute inventory days and receivable days, they may vary so would it be possible for you to give these days in your presentation and in terms of tonnage, that would possibly give a better representation of efficiency the way you're managing your working capital, would that be possible to show you to...
- Milind Kotecha:** No, we will think over it. And maybe from the next time we can give that data also in the presentation but considering of time, the working capital days that we have, it is maintained irrespective of the prices moving up and down because the price moves in line with the raw material prices, so that is taken care of.
- Vibha Batra:** And the inventory days also, do you vary according to your outlook on prices for raw materials or how do you kind of maintain that?
- Maulik Patel:** No. So there is no change in the in terms of prices, anything is changing. But in terms of our policy in terms of the pricing to the customer in terms of the credit to the customers or the raw material buying policy, there is no change. We keep it the same as it is. We don't fluctuate that much in terms of buying as well as in terms of the selling policies.



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- Sanjay Jain:** There wouldn't be a much in the overall workable cycle.
- Vibha Batra:** And your operating margins, they have been declining. So is there something you can do to kind of reduce the volatility in operating margins? Or you think it's part of the business?
- Milind Kotecha:** See, the operating margins, which were actually high. I mean you're looking at the past numbers in the last six months. So that were on the elevated side because there was a run in the Chlor-Alkali space, where we have enjoyed the high prices compared to the moving in the raw material prices.
- So that's where the margins have moved up. And that is where from the beginning, we have always given a guidance that our EBITDA margin will revolve around 28% for a longer period of time, even when we had enjoyed a margin of 32% in the previous quarters. But if that kind of situation continues, we would enjoy that margin. But being on the realistic side, on a long-term basis, 28% is what we expect that to maintain over a longer period of time.
- Vibha Batra:** So the margins could drop from December levels, is that the guidance...
- Milind Kotecha:** Yes, you can say it will come to the actual levels, which were high in previous quarters. But absolute EBITDA in terms of that will go up because of the new products that we are entering, which are in terms of volume will increase, which will ultimately boost our absolute EBITDA. So that will put the ROCE on a higher side compared to what it generally used to be like in FY '22 levels.
- Moderator:** We have the next question from the line of Harshil Pandya from FinTrust Capital.
- Harshil Pandya:** Sir, actually, my answer is already done. So I already questioned that my question will be removed.
- Moderator:** We have the next question from the line of Aman Agrawal from Equirus Securities.
- Aman Agrawal:** I just wanted to gauge some sense on the kind of realizations we are able to get for our CPVC resin sales versus what would be the landed price for CPVC has been imposed currently?
- Maulik Patel:** So yes, you can consider the CPVC prices close to around 150 to 170 kind of range.
- Aman Agrawal:** And this is for our sales or the landed price in India that for the import players would be putting...
- Maulik Patel:** This is at par with the price, yes to the customer.
- Aman Agrawal:** And the CPVC price trend, if you see, have they moved in tandem with when PVC prices started to rise, the CPVC price been rise in the same manner as PVC so for the last six months, if we see are the CPVC prices moving in tandem with the UPVC or PVC prices?



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**Maulik Patel:** Yes, it is moving along with the PVC pricing, but there is a price protection on the lower side for the when it goes below certain in, there is a protection in terms of the antidumping duty in India, yes.

**Moderator:** We have a follow-up question from the line of Riya Mehta from Aequitas Investment Consultancy.

**Riya Mehta:** So my first question would be in regards to ECH. So when we had earlier estimated that we would have a good domestic market. So what planning has gone wrong or what changes in the environment has happened that we are seeing lack of demand? And a follow-up for that would be when do we see proper utilization or optimum utilization in this and from there?

**Maulik Patel:** So this is because of the overall global situation, the infrastructure-related demand, which is epoxy resin majorly in US and Europe is down. In the global market, in the domestic China is also very low. The spending is low because of their COVID policy. But we believe that now the things are going to change.

This is the lowest possible level we have reached. And now the things are going to change from after the new year of Chinese and they have changed the policy for the COVID also that the global situation will change from there onwards. And we believe that the market of ECH will be and we will also optimize level we will reach by quarter 1 this financial year.

So the demand has subdued because of this kind of global situation and mostly the most of the people, they are doing a contract on a yearly basis from financial year from January to December. So yes, we are talking with all the big players right now, and we are expecting I think we are getting a contract, and we are going to start export as well as the domestic contract also going to start apply from February or March onwards.

**Riya Mehta:** And in terms of hydrogen peroxide, we've seen lower volumes this quarter or what kind of changes in the industry dynamics are we seeing?

**Maulik Patel:** In terms of demand, there is no change. In fact, there is a higher demand. But yes, there is we have taken a slight maintenance in the plant in the last quarter. That is the impact of the lower volume. Otherwise, there is no change in terms of demand.

And in fact, we are getting higher demand in terms of the export opportunity from the paper customers, they are getting it because of the Europe is down. So all paper companies are running well right now. And I think we are expecting it will continue further until the Europe situation will be improved further, yes.

**Riya Mehta:** And in terms of chloromethane, prices have fallen back because of lower raw materials. I think that would be in line. So a margin though there would be intact despite decrease in realization or you seeing detrimental margin?



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- Maulik Patel:** So chloromethane price of raw materials are moving in the tandem with the finished goods. So as the raw material is decreasing, the ECU is also decreasing in terms of the chloromethane. But yes, in terms of overall demand, I think we are expecting from this quarter also the demand of chloromethane products are good...
- Riya Mehta:** Okay. And what would be a rate of cost of borrowing for us?
- Sanjay Jain:** Rate of borrowing as of now is around 8% as of now. Is close to 8%, around 7.8% to 8% to 7.9% average...
- Riya Mehta:** And in terms of you're seeing a decline in the international coal prices. So do we see a decline in our input costs going forward?
- Maulik Patel:** It is. So it is a standard thing. And I think the international coal price when it is reduced, yes, it is definitely our import price reduce, but it is not in a big range. It is moving down and up slightly. It keeps changing on a weekly basis. So we are not expecting it will be a big change like earlier or the energy will reach to earlier levels. We are not seeing in near future, yes. till the situation will improve in Russia and Ukraine, yes.
- Moderator:** We have the next question from the line of Bobby J from Falcon Partners.
- Bobby J:** Yes. So my question is when the prices for your products fall like ECH or chloromethane because the input prices fall, are you able to preserve your margin?
- Maulik Patel:** Yes, when price goes down, for a couple of quarters you have an inventory of the raw material till that time, you will be in pressure. Otherwise, we will back to normal in the normal margin after, in a couple of quarters. When the price moving up, you are getting extra advantage of lower inventory costs. So yes, normally, in three to four months' time, we are back to a normal level of margin.
- Bobby J:** So your inventory holding period is three to four months for these products?
- Maulik Patel:** Yes. In the normal, yes in average, you can consider, yes.
- Bobby J:** So that's quite a bit of lag before you get to the new levels, right?
- Milind Kotecha:** So that's generally a lag of one quarter because also when we sell the price for at least a month or a quarter is booked for a few products. So that's where it comes to three months. So the inventory might be low, but in terms of blocking the price, that will be there.
- Bobby J:** And the other question was regarding Europe, you said last time the Caustic prices were sustaining because there was low chlorine production, right? Because of the gas situation. But now that's pretty much back to normal. So is there more chlorine production in Europe?





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- Maulik Patel:** Chlorine in Europe situation, we don't know. But in India, I would say the chlorine situation is improving. And the demand of PVC, which is a major driving factor for the worldwide for the chlorine. It is also in the upward cycle now because PVC price was already bottoms out in the last month. And you see this month onwards, it has started moving upwards. So we see that majority of the other chemicals also will start moving upwards once the China will open yes, like the PVC has started moving up.
- Bobby J:** My question was specific to Europe, because you were exporting to Europe, correct?
- Maulik Patel:** No. We are exporting? We are talking about which product?
- Bobby J:** Even caustic soda?
- Maulik Patel:** So caustic soda, India is exporting not only to Europe, but also to Africa and different part also.
- Bobby J:** No. But your last call, you specifically said that you're getting better prices in Europe?
- Maulik Patel:** Yes. So at that point of time, yes, it was right. Because that was the opportunity in Europe that point of time because of the high....
- Bobby J:** My question is exactly that. Is that still the way it was last quarter or the prices dropped in Europe?
- Maulik Patel:** Yes, prices dropped in Europe, but I don't know whether it depends on the -- they're running their plants back to normal level or actual demand has dropped? So a lot of feedback we are getting it is a lot of European demand itself has gone down itself compared to last two quarters. So what is the exact situation, I think we are not able to tell, right now.
- Bobby J:** So you're not exporting there anymore?
- Maulik Patel:** In last three months, we have not exported, not we, but India is not exported much, much volume, like early.
- Bobby J:** And your results quarter-on-quarter, your revenues are down 4%, but your profits are down 16%. What's the reason?
- Milind Kotecha:** So quarter-on-quarter, the revenue was down 4%. That was because our volumes were almost flat. The 4% down was purely because of the realizations on products has marginally cooled down. And in terms of the EBITDA and the PAT has gone down. EBITDA has gone down. That is because of the high cost inventory, raw material compared to the realization. As I said, relation has moved down, and we have an inventory of bit higher price compared to the realization drop. And the PAT has cool down, that is purely because of the new plant that we commissioned and that has contributed to depreciation and the interest cost.



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- Bobby J:** You mean the caustic soda plant, right?
- Milind Kotecha:** Caustic Soda, Epichlorohydrin, CPVC because Epichlorohydrin we commissioned in June, CPVC commissioned in July and the caustic soda we commissioned again in Q2. So that all brings to the depreciation interest increase, which had impact in the Q3.
- Bobby J:** And final question on the ECH, while it is true that globally, the construction industry is weak, but we're talking about India here, right? And there, the building and construction industry is pretty robust as is the paint industry. So why are your ECH sales demand not up to par?
- Milind Kotecha:** So majority of the domestic players in India is also doing export, the capacity of India is not only based on the Indian demand. So they are also exporting a lot. So their volume has also decreased. epoxy manufacture...
- Bobby J:** The epoxies are also used in coatings and paints and general building, right? That's all for domestic use. That's not exports. When you're building a house, you need epoxy, right?
- Maulik Patel:** But coatings -- epoxy is also used in automotive and the windmill sector. That is the major in India. You can say that, and adhesive will be the third sector.
- Bobby J:** Right. But all that is used also in building and construction?
- Milind Kotecha:** Yes. The thing is that the ECH that we manufacture majorly in India goes into epoxy resin. And the Indian epoxy resin manufacturers, they do also exports also. So the Indian consumption is still intact. But in terms of export, it has gone down. So there is no incremental demand as such. And they already have a contract with their existing suppliers, so which now from January onwards, we might get a portion of it.
- So that's why it is a bit delayed compared to what it should be have been if the demand would have on a higher side, if the -- it would have grown, but the global demand has gone down, which is why the Indian epoxy manufacturers supply to the export has gone down, and that is impacting the ECH demand in the India. But again, as I said, contracts from January will start to slow -- the portion of that will also start contributing maybe from the starting of Q1 FY '24.
- Bobby J:** This is a bit of a surprise. So you shouldn't be tracking your ECH demand based on Indian building and construction industry. That's not the driver for your product. Is that correct?
- Milind Kotecha:** If we see, the thing is currently the situation is such that the global demand is low. Otherwise, considering the epoxy manufacturers are increasing their capacity. There are also other players coming in India with increasing their capacity. So we expect this demand to grow substantially. But again, considering the current situation, it has been subdued. But if we ignore this portion in a longer period of time, that is in a two to three years' time once the demand picks up, this demand for the ECH is going to grow in a double-digit percentage.



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- Bobby J:** Yes, I understand, but it will be export driven, not domestic driven?
- Milind Kotecha:** No, it will be -- domestic driven also. So when I'm saying the new capacities are coming for the epoxy that is in India. But again, because of the current situation, the demand is low. It has been delayed by maybe six months or a year's time till the time demand again pickups.
- Bobby J:** So the demand is low because they're not able to export out. It's not low because the Indian construction industry is low. Is my understanding correct?
- Milind Kotecha:** Yes, that is right. But again, but as we said earlier, in terms of the ECH demand on the China side also, they are consuming less. So that's where the demand, the demand is consumption is lower in China. But once that picks up from the 15th of -- and in the post festival season, the demand for ECH will globally go up, and that will again have a good demand globally level at the India level also.
- Bobby J:** So is your CPVC also dependent on global growth drivers? Or is it purely domestic?
- Maulik Patel:** The CPVC is 100% domestic base because this is a very unique molecule where world's 50% demand is coming is only in India. So this is very unique CPVC chemical, where world's 50% demand is coming from India. So it is most 99%, it is India-driven. 1% we can do export to here and there, but it is hardly anything here.
- Bobby J:** And same with caustic soda, right? You're just -- the plants are to cater to Indian demand, not for exports?
- Maulik Patel:** Yes. So the primary focus is domestic only. And if there is an opportunity in the export, then we do it to Africa and other regions. But yes, primary focus is always India.
- Moderator:** We have the next question from the line of Chintan Mehta from Prudent Corporate.
- Chintan Mehta:** Sir, my majority of question get answered. I have just one question. On the longer term, is it possible to sustain the margin front if we increase the proportion of renewable energy on caustic side?
- Maulik Patel:** Renewable energy you're talking about?
- Chintan Mehta:** The power cost or anything, if we increase the solar and everything, then its sustainable margin can be possible in future for longer term?
- Milind Kotecha:** For the caustic soda, we have our 132 megawatt power plant, which is good enough for meeting the requirement of electricity of caustic soda. The additional that we are entering into winded solar hybrid power plant, that is for the additional requirement for all our derivatives plant. So in terms of margin, that is generally the price of coal moves in line with the price of the relation that should be in range of what we have right now.



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**Milind Kotecha:** But if you as a company level, it will impact – it will sustainable the margin will be remained as a company level, because it will contribute to the other derivatives as a power requirement, not in the caustic soda only.

So currently, we would be taking the power from the grid that will be replaced by the power we will be getting from this wind and solar hybrid power plant. So we'll be saving at that cost, which will ultimately have a positive impact on our margins.

**Chintan Mehta:** Then do we have any other plans to increase this renewable proportion?

**Maulik Patel:** So Mr. Chintan, I just wanted to explain that the power is a common factor in the entire our company. So it will reduce the average power cost of the company. It is not particular this product will use this power or other products will be using other power, you understand.

So it is not only the renewable energy, which we are doing it not only for caustic, it is along with the entire campus. So our average cost of power will reduced.

**Chintan Mehta:** And sir, lastly, how you see the China demand once it's open, it will affect the caustic prices? I mean on or demand side, it will improve?

**Maulik Patel:** Currently, the caustic is not only depend on the Chinese thing, but it is also on the global thing which is happening in Europe in terms of energy. So China and Europe, we need to see the how it is moving in coming times. But definitely, if China internal demand improved, the global any industry will change the supply-demand scenario overnight, and I think the situation changed in terms of the pricing in the globally in terms of demand also. So, there is an impact if there is something improved in China, we can see the improvement in the global situation in terms of any kind of chemicals.

**Moderator:** We have the next question from the line of Dr. Amit Vora from The Homoeopathic Clinic.

**Amit Vora:** Mr. Maulik, I want to ask you that last time also I had spoken to you, you told that for the full year basis, you expect ECH to give a revenue of around INR 1,000 crores. So do you still stay with that for the next financial year?

**Maulik Patel:** ECH and CPVC together, yes.

**Amit Vora:** I think you had told ECH, in fact, on the CNBC interview also you have told ECH INR 1,000 crores per year?

**Maulik Patel:** Yes, at that point of time, we said ECH and CPVC together, but we are looking at the current pricing, there is a change again. So it can contribute close to around INR 800 crores. On a full year basis, it runs full.

**Amit Vora:** And do you still go with the guidance of 2027 with INR 5,000 crores worth of sales?



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- Maulik Patel:** Yes. That is our long-term vision and long-term aspiration.
- Amit Vora:** My last question, any contribution to the sales in this quarter from CPVC?
- Maulik Patel:** That is the reason we have announced our expansion. So..
- Amit Vora:** Are the figures reflecting in this quarter, it will be reflected in next quarter, the sales figures?
- Maulik Patel:** As I mentioned, it is October, November, there was not much sales in terms of the CPVC. December itself, we have got the major approval from all the customers, and we have started selling and 70% sales happen only in December. So definitely, in the next quarter, we will get full Three months.
- Amit Vora:** And even ECH will be better, as you say, in next quarter as compared to...
- Maulik Patel:** Yes, we are expecting end of next quarter, we are expecting the sales in ECH as well. But ECH will take quarter 1 to reach that optimized level.
- Moderator:** We have the next question from the line of Kashish Gandotra an Individual Investor.
- Kashish Gandotra:** Just wanted to ask one thing. So the new plants, which we have introduced this time on the caustic soda one and the CPVC? Can you just give me an idea what much capacity level this will be opting at for this year, for this quarter, either?
- Maulik Patel:** For the additional capacity of caustic soda, you're asking?
- Kashish Gandotra:** For the caustic soda and the CPVC one, the plant which we
- Milind Kotecha:** So additional capacity of cost of soda would be running at a lower capacity utilization as we had conveyed earlier, it will reach optimum by Q4 FY '23. So it would be difficult to give a number. But I guess in Q4, it will be clear once we have the contribution. And CPVC, as Maulik said, in October and November, it was a bit low. But in December month, the capacity utilization from CPVC has reached around 70%.
- Kashish Gandotra:** And then is the optimum level, we are targeting somewhere around 60% to 70%. Is that the correct understanding?
- Management:** Yes, in the first phase.
- Kashish Gandotra:** I think for caustic, so that will be primarily more easier for us since that product was already into the market. So the customer acceptance would be there for that product. Is that understanding correct? I just want to know?



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- Maulik Patel:** For caustic soda, on an average capacitation from caustic soda is around 80%, 85%. So that will be achievable in the Q4. End of Q4.
- Kashish Gandotra:** Just one last question. And on the EBITDA margin side, for long term, we are somewhere in the 20% to 30%, right? Long term?
- Maulik Patel:** 28% plus-or-minus two, yes. That is our ratio.
- Moderator:** We have the next question from the line of Pratik Kapoor an Individual Investor.
- Pratik Kapoor:** Just want to take more about price changes of ECH. So what is the current price right now? And you can have approximate ranges like in large power, how it has been here, what was the peak and bottom for ECH?
- Maulik Patel:** We are expecting I think we are at almost bottoms out in terms of the ECH pricing. So I think you can consider around INR 120 to INR 125.
- Pratik Kapoor:** So what is the peak prices for ECH maybe in last five years also?
- Maulik Patel:** Yes, it is close to you can consider it close to INR 200.
- Pratik Kapoor:** So currently, it's like INR 120 per kg, right?
- Maulik Patel:** Yes.
- Moderator:** We have the next question from the line of Ullas Agarwal, a Retail Investor.
- Ullas Agarwal:** So my first question is, what is the cost of setting up the solar and wind power?
- Maulik Patel:** So this is not we are investing. We are just a partner. So we are just taking a 26% equity in the company. And that company, we are doing a contract for 15 years to 20 years, and they will supply contracts. So investment in terms of investment, we just need to invest as an equity only a 26% equity portion only remaining equity as well as the debt and the loan will be taken over by that particular company. So there is nothing to do with us.
- Ullas Agarwal:** So like for 26% equity, what investments have we done so far?
- Maulik Patel:** 26%, we have done almost INR 22 crores.
- Ullas Agarwal:** And what will be the average cost of production or like for this solar, like they will be like supplying us the power at what cost?
- Maulik Patel:** We are not concerned about. We just have a contract of what particular price, they will supply for 15 years to 20 years. So we are not concerned about that cost and there's anything. We have just one price, we have a contract and they were suppliers. That's it.



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- Ullas Agarwal:** One more thing last year, the caustic prices were around 27,000. So let's say, this year also, like is the caustic, if you goes down to 27,000. Will we be like able to manage the same targets that we had this year?
- Milind Kotecha:** So the caustic soda price is like 27,000 that was in the Q2 FY '22 levels. But considering the current situation and the things that we have and the way prices have moved up, we don't expect it to go to the levels of what it was in Q2 FY '22 also. So even it won't remain in the current elevated prices, but it won't go to the levels of that also.
- Ullas Agarwal:** And one more thing Meghmani Organic is coming up with titanium dioxide, so will that be requiring chlorine?
- Milind Kotecha:** That is something, I guess, we would not be able to answer. We can answer a little to the Meghmani Finechem as such. But we do supply chlorine to the companies are close to us.
- Ullas Agarwal:** Can you just given the percentage of revenue, which comes from MOL?
- Milind Kotecha:** The revenue from?
- Ullas Agarwal:** Meghmani Organics, like we may be selling some products to them?
- Milind Kotecha:** So in terms of see, we sell basic raw materials like, caustic soda to our customers, to our companies who are close by. So Meghmani Organics is one of it. So that is the portion it gets, but I cannot share in terms of revenue breakup to the customers to whom I sell. So I won't be able to share that data.
- Ullas Agarwal:** Just one last question, sir. This caustic potash realizations are increasing, like year-by-year like 40% is given in the presentation. So I'm very new to this thing. So like is caustic potash or minor product and caustic soda the major?
- Maulik Patel:** Yes. Caustic potash is a little special and this consumption in demand is not in line with caustic soda.
- Ullas Agarwal:** So when we do capex for caustic soda, that's automatically this caustic potash also that's increased, like our capacity?
- Maulik Patel:** We are focusing only on when we announce caustic soda is only caustic soda capacity there. The caustic potash, demand the demand is not that big and that's huge. So we can't go in line with caustic soda.
- Milind Kotecha:** So soda, we have a capacity of 4 lakhs, whereas in caustic potash, we have capacity of 21,000. As Maulik earlier said, it's a very niche product and a small market that is there. It's a different product.



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**Ullas Agarwal:** We are not like increasing our capacity in caustic potash?

**Moderator:** As that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Kaushal Soparkar:** In conclusion, we are making progress over our long-term objectives as well as our commitment to the environment and sustainability. I would like to thank you all of you for joining our call today. Please feel free to reach out to our IR team. If there are still any unanswered questions. Thank you, everyone, for your participation, and have a great evening ahead. Stay healthy, stay safe. Thank you.

**Moderator:** Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.