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The National Stock Exchange of India Ltd. Listing Department Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 Company Symbol: DMCC	BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code : 506405
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Sub: Transcript of Conference Call held on November 10, 2022, with investors and analysts on the financial performance of Q2FY23.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015, we are enclosing herewith the transcript of the Conference Call held on Thursday, November 10, 2022, at 2:00 p.m. (IST) with investors and analysts on the financial performance of Q2FY23.

The said transcript will also be made available at the website of the Company at www.dmcc.com under Investors>>Announcements>>Analyst Investor Meets>>Investor Conference Call.

You are requested to kindly take the same on your record.

For DMCC Speciality Chemicals Limited

(Formerly known as "The Dharamsi Morarji Chemical Company Ltd)

Omkar Mhamunkar
Company Secretary & Compliance Officer
ICSI Membership No. ACS 26645
Encl: As Above

CIN NUMBER: L24110MH1919PLC000564



DMCC Speciality Chemicals Limited

(Formerly known as The Dharamsi Morarji Chemical Co. Ltd.)

DMCC Speciality Chemicals Limited

Q2FY23 Earnings Conference Call

10 November, 2022

Management Participants

Mr. Bimal L. Goculdas – Managing Director and Chief Executive Officer

Mr. Dilip Gokhale – Executive Director

Mr. Chirag Shah – Chief Financial Officer

Mr. Omkar Mhamunkar – Company Secretary and Compliance Officer



Analyst

Mr. Abhishek Mehra – The Investment Lab

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY23 DMCC Speciality Chemicals Limited earnings call. As a reminder, all participant lines will be in 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from TIL advisors. Thank you and over to you.

Abhishek Mehra: Welcome everyone and thank you for joining this Q2 FY23 earnings Conference Call of DMCC Speciality Chemicals Limited. The results and investor updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we'll be happy to send it over to you. To take us through the results of this quarter and answer your questions we have with us today, Mr. Bimal Goculdas, Managing Director and Chief Executive Officer. Mr. Dilip Gokhale, Executive Director. Mr. Chirag Shah, Chief Financial officer. Mr. Omkar Mhamunkar, Company secretary and compliance officer. We'll be starting the call with a brief overview of financial performance, which will be followed by the Q&A session. I would like to remind you all that everything said in this call, reflecting any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks are included but not limited to what we mentioned in our annual report, which you'll find on our Company's website. With that said, I will now hand over the call to Mr. Goculdas. Over to you, Sir.

Bimal Goculdas: Good afternoon, ladies and gentlemen. Welcome to our investor conference. You must have all read the results, and certainly it was a disappointing quarter. We had a reasonably good top line, but very low EBITDA margins and profit as well. We had in fact a loss of 2.8 crores for the quarter. I'm sure you all have a lot of questions, but I

can give you a background on the business side. So first of all, during the quarter sometime in July there was a sudden and significant crash in the main raw material prices along with many of the other commodities. The difference this time was that the crash happened within a couple of weeks and the drop was about 65% in terms of the previous value, this led to an immediate drop in the market. You know, there is no way the customers were willing to pay on the higher price of raw materials, so we had to take that loss. This is happening across sectors, in fact. And on the market side, we had a reasonably good first quarter, in the second quarter we started noticing deferment of shipments and because of the uncertainty and the continuing uncertainty in Europe, particularly very high energy prices in Europe and generally people have been reducing their stock, so the entire supply chain is being eroded, so people don't want to keep any inventory which results in lower demand, which again results in producers getting panicky and then prices coming down. That's the fact of the matter at this time. On the project side and our internal working, happy to report that we've completed all our planned Capex. During the second part of the quarter, we completed the Speciality chemical plant at Dahej as well. So we look forward to ramping that plant up over the next few quarters. I think business wise the uncertainty as I mentioned continues, but since we are diversified across business areas, we expect the recovery to happen. I mean, once the supply chain has been made zero, it can't go further down and we believe that we are approaching that level at this time, with that I'd like to hand it back to Abhishek and I'm open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. We have our first question from the line of Rohit Balakrishnan from ithought PMS, please go ahead.

Rohit Balakrishnan:

So just I joined maybe 2-3 minutes late, so maybe if you had shared this number in your opening commentary, I missed it. In the presentation you mentioned, there were some inventory losses and

also some Forex losses. So can you just quantify what kind of inventory losses did we have this time around?

Bimal Goculdas: These are not exact numbers, but I can tell you that we typically hold one month stock of raw materials, so assume about five months, 5000 tons of sulfur and the price dropped significantly from about, ₹35,000 per ton to about ₹10,000 per ton. So if you do the math on that, you'll see a significant reduction in value, which naturally once the prices dropped, the customers of sulfuric acid will expect the price based on the new value. That itself is about 15 crores. Other thing was the Forex loss. See we have converted some of our loans, term loans into foreign currency because there's a delta in the interest rate. But what happens when there's a devaluation of the rupee, is that you have to take a mark-to-market loss in your book. So we have revenues in foreign currency which will happen over the next few years. We also have payments of these loans which will happen over the next few years, so there is a balance, we have a positive balance on that, but at this time, because of the devaluation from 75 levels to about 81 levels and we have loans of about \$5 million in foreign currency, so that itself is about 3 crores in terms of forex mark to market loss which we had to account for.

Rohit Balakrishnan: Got it and so these inventory losses largely you would assume in the bulk chemical right?

Bimal Goculdas: Yes.

Rohit Balakrishnan: OK, and so given you mention that we've finished all our Capex so demand, assuming it comes back, inventory de-stocking, whatever happens, do you expect them to start contributing from this quarter itself? Or how do you see that outlook? I know you mentioned it's a bit uncertain, but if you can give a bit more on this.

Bimal Goculdas: As usual I don't like to give predictions on this, but the global situation is known to everybody. And unless there's some settlement in Ukraine, I don't see Europe coming out of this mess that they are in,

and consequently, I believe that it will affect the global economy, not just the global chemical industry to a significant extent, unless this is sorted. I think everybody realizes it.

Rohit Balakrishnan: So I know we've been extremely conservative and I've been tracking the company for a while so I know how you think so and for the first time in many years we've had some debt now. I mean, it's at least some substantial debt. So how are you thinking now, I mean, we will have expanded depreciation also and fixed costs from the plant and also from the interest cost point of view. So how are you thinking? I mean specifically, in terms of debt, like what is the peak debt you think we'll have? Is it the peak debt or you think there could be more given working capital issues, etc.?

Bimal Goculdas: So in terms of debt I think we are at the peak; we have no significant investment plan. And even in terms of working capital. We had already reached a very high limit because of the inflated raw material prices. Now with that coming off, it eases some of that pressure as well. Interest cost has gone up as you're aware, both in rupee terms as well as in foreign exchange. But that's a part of it.

Rohit Balakrishnan: Right, so given you mentioned that Europe, in general, has been in very bad shape, does it improve our competitive positioning or do you think hence we are in a better position whenever demand arises or do you think it's Right now the question of demand not being there, and that's a very bigger issue?

Bimal Goculdas: So I've been asked this question on different forums and so one way to look at it is because energy cost in Europe is high that business will go overseas and India could be a beneficiary, correct? But if the demand itself is disrupted then the question of cost and all does not arise. So I was at a conference organized by the International Council of Chemical Associations, where they were hoping that the winter would be mild so that they would have enough gas to supply the entire industry. Because obviously, their priority will be to heat homes. And for that, they have enough gas. But they were not sure

about supplying sufficient gas to the industry. So on one hand, your competitor may not have gas. On the other hand, your customer also may not have gas, so what happens in that case, so difficult to predict so far the winter has been mild, but you can't say what's going to happen.

Rohit Balakrishnan: Also just on the Boron side, you were expecting that this year should be better given the availability of Boron should improve, but also anything you'd like to share on that segment?

Bimal Goculdas: It is certainly better than last year. But we are still not getting the kind of raw material we need. We are struggling all the time with the suppliers and essentially there is really 1 supplier globally which is trying to meet everyone's needs and it's just not enough as yet.

Rohit Balakrishnan: OK, understood. And given all this turmoil in terms of raw material prices going up, going down, interest costs going up. I mean from your point of view, from your vantage point, your payback, have they changed drastically or do you think that three-year payback that you have consistently mentioned and that continues to be there

Bimal Goculdas: So you don't factor in a prediction of war in your payback calculation so that came as a surprise to everybody. See I already believe that the destocking is nearly over. So it is not going to destock much further because there's nothing to destock and by end of November. You know, end of December, people have to start buying again, even just to maintain. We are seeing in different segments, like dyes and intermediates, the pigments they're really operating at low levels these are our customers, so they will eventually restart, and I believe that in terms of I can't look at it a quarter on quarter and all, but in the medium term, we believe we've made the right investment where we will be the lowest cost producers anywhere in the world so that way we are well positioned, instead of three years, you may have a payback for four years because of the war. That's a different story, but anyway, our major investment was on the bulk chemical plant,

where we had taken a longer-term view and that is something which we needed anyway.

Moderator: Thank you. We have our next question from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead.

Jeevan Patwa: Just one question. So since we are now completed with all the Capex. What's the revenue potential you see at the full capacity utilizing so at the current prevailing prices? I'm saying so what is the total sales potential we can achieve it at full capacity utilization?

Bimal Goculdas: So as I mentioned earlier, of course, it depends on what price levels you consider and all that. But with our current investments, we believe that around 500 crores would be the visible top line.

Jeevan Patwa: OK, perfect and secondly this repair and maintenance cost has been higher, actually every quarter. So is it's almost 3%, 4%, 5% of the top line. So why every part we have this cost?

Bimal Goculdas: So, this also have been asked, even within the within the company also, we have been discussing and the thing is we have done a lot of upgrades and we have continued to do a lot of upgrades to the infrastructure to the roads, to the laboratories, or things like that at the location in Dahej, of course, we are creating some things or upgrading the laboratory to meet the internationally accepted levels and Roha also we are expanding a lot of the infrastructure, improving the roads, things like that. So yes it has gone up now, also in this quarter in October and December we do have a planned maintenance shutdown. So some of the expenses we would have made or will plan to make in the shutdown would also be done in the previous quarter because you have to pay some of the advances.

Jeevan Patwa: OK, so how long this cost will keep coming in the end? There's a continuous operation you are saying, so are we still doing it?

Bimal Goculdas: Other thing you have to remember is that if you compare it to last year's numbers, we had no sulfuric acid plant at Dahej, we have

significantly lesser operations. So you have to also look at that point of view. Yes, it's a new plant. Yes, it's much less maintenance than it would be at Roha, but there would still be something. So from October to March onwards, if you look at those numbers which will publish sometime in end of April, you'll get an idea of what it's likely to be going forward.

Jeevan Patwa: Perfect and now since we're taking shutdown at Roha, but I think it should not affect too much because we will have a plant in Dahej, right? The sulphuric Acid plant going in Dahej, so that should not impact too much on operations.

Bimal Goculdas: So it will affect the operation, but yeah I guess. The impact would be much more dramatic if there would be no plant at Dahej. It would be Smoothened out, some things we are able to deliver between the two locations, but not everything. And certainly, there would be a drop in the volume. But it would be much less dramatic than what it had been in the past when we had only one location.

Moderator: Thank you. We have our next question from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is on the Sulfone side, so any update on the value-added Sulfone part? If you can give us.

Bimal Goculdas: As I said we are doing some of the Sulfone and they continue to perform reasonably well. But again because of the global slowdown in so many areas not seeing the full impact.

Aman Vij: But in terms of product stability and all those things, so we were relying on one Sulfone as of now, Is it the same scenario or have the second product also started contributing?

Bimal Goculdas: Yeah, we have a couple of products now in line.

Aman Vij: If you can give the number of products in Sulfone division?

Bimal Goculdas: Yeah, number of grades, products and I think again depends on the overall market, but from customer approval side and everything we should have some results in the next six months.

Aman Vij: Sure, Sir, my second question is on our newer products which we have launched the last 1-2 years, if you can give some update on the same as well as any other new product which we have launched in the last one or two quarters?

Bimal Goculdas: We are continuing to launch the Sulfur based products. As I said, we are not at liberty to disclose individual names. But we have been doing these in multipurpose plants and also now in a dedicated plant at Dahej which we'll see ramp up in the next quarter or two. Number of products are based on either, you know, sulfonation, chloro-sulfonation, things like that.

Aman Vij: Sure, Sir, any number for the number of new products launched in the last six months?

Bimal Goculdas: So off-hand I know that we have done three products again, smaller volumes from multipurpose plant, but we expect that they could be decent contributors to the bottom line.

Aman Vij: Sure sir my final question is on the Speciality portion of the business. If you can talk about what was the gross margin impact on this part of the business because of the issues you highlighted especially Sulphur prices crashing, and also what was the volume de-growth in this business.

Bimal Goculdas: So on both things in the speciality side, we would not have much impact of the change in the value, because there most of them are based on contracts. So we've got either written contracts or understood contract, but they are dependent on fluctuations in the raw material. So those margins would be stable really, get hit on the bulk side where you have no such protection and in terms of volumes. I don't think there would be much of de-growth in the sense, but we

are looking at expanding. Particularly the speciality chemicals at Dahej that expansion may take a little longer than what we would have liked. Because of this situation, particularly in Ukraine.

Aman Vij: Sure, so whenever this situation stabilizes and with the new Capex new plant coming up of speciality side. If we do X today, what is the business we can do in terms of volume once things stabilizes?

Bimal Goculdas: Well, I can reveal that we've doubled the sulfuric acid, so we'll go to two lacs tons of sulfuric acid from one lakh tons. Then the other products we are not disclosing individual product volumes, but as a general guideline, I can tell you that our idea wants to replicate the Roha operations at Dahej. Some products being common, some products being different, but that's an idea. I can give you. I can't tell you more than that.

Moderator: Thank you. We have our next question from the line of Kumar Ashish, an individual investor, please go ahead.

Kumar Ashish: I have just two questions. The first one is that as you discussed earlier, total amount of 500 crores from the current Capex. That is 100 crore. It means it 5X asset turnover.

Bimal Goculdas: No, that is the total sales we will reach. If you look at the earlier numbers, so typically around 2X is what we are expecting.

Kumar Ashish: OK, so how much amount is contributing in financial 23 or 24 from the Capex?

Bimal Goculdas: So we completed the Capex only in different phases the main plant got commissioned in January, the bulk chemicals plants and other plants got recently commissioned. So not much contribution from the Speciality side as yet.

Moderator: Thank you. We have our next question from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

Abhishek Getam: Sir sorry I missed the point, so you said our bulk Sulphuric plant has gone from capacity of one lakh to two lakh capacity, right?

Bimal Goculdas: So we earlier had one plant in Roha. Now we have one plant in Roha and one plant in Dahej.

Abhishek Getam: So Roha was 1 lakh and now Dahej is also 1 lakh and out of the Dahej 1 Lakh will be utilizing 50% date for the Speciality.

Bimal Goculdas: Yeah once we get the specialities up to capacity, that is what we expect that around 50% is consumed in-house and about 50% is sold.

Abhishek Getam: OK, and in Roha 1 lakh we selling in the markets.

Bimal Goculdas: No, even there we are consuming about 50%.

Abhishek Getam: So OK, currently on the Roha we're consuming 50%, yeah. OK, it's understood, so any sort of a guidance or guidelines on how do we track the speciality intermediate set of a business? Since we don't, we're not disclosing tonnage capacities.

Bimal Goculdas: So we are disclosing the different bulk chemicals and their specialities separately. So if you look at the absolute numbers you'll be able to track it.

Abhishek Getam: OK, but we won't be disclosing the tonnage or anything. OK, and also on the intermediate side. So this is a plan for one client-specific, right?

Bimal Goculdas: So one major client would be an anchor client, but it's not exclusive.

Abhishek Getam: OK, and that capacity has now come online fully to 100%.

Bimal Goculdas: So we've not achieved the capacity because, we've recently commissioned the plant, It goes through some approval processes and all that and with this situation in Europe, some of the things have slowed down, but we expect that that by next year we expect to get to capacity.

Abhishek Getam: OK, and the intermediate plant that can also do a 2X sort of asset turn.

Bimal Goculdas: Yeah, typically 2-2.5 for the specialities and about 1-1.5 for the commodities. That's what we expect.

Moderator: Thank you. We have our next question from the line of Keval Ashar from DSP investment managers. Please go ahead.

Keval Ashar: So there's two questions from my side so first is the since. It's completed the full Capex in H1 FY23 by when do we expect it to reach to the optimum utilization or full facility?

Bimal Goculdas: So under normal situation, we would have expected that by March - April we would achieve full capacity, because of, as I mentioned, you know a lot of these products we are doing are from the market pull side, so there is demand. Therefore, we put it up. It's not the reverse. So we have visible customers and everything. The question is how much it gets delayed because of the Ukraine situation that is an unknown.

Keval Ashar: OK Sir, got it. And second thing is if you can just throw some lights on which other products do you plan to further expand? So would it be on sulfur side or any other chemistries? Also further on what will be the size of Capex and by when do you plan to start the further Capex once we reach the optimum utilization of our current facility?

Bimal Goculdas: Yeah, so we are still focusing on sulfur chemistry mainly and will continue to do that. In terms of Capex, we have no significant plans at the moment. This is our current Capex cycle is complete. We have some energy recovery plans at Roha to reduce our carbon footprint. And reduce our dependence on the grid. But apart from that, we have enough capacity. We believe for the immediate time at the most we may consider some investments on the boron side, but nothing is final yet.

Moderator: Thank you. We have our next question from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: I just wanted to understand with the shutdown coming in Q3 or what will be the approximate impact on both the bulk and the Speciality side of the business.

Bimal Goculdas: So it's a shutdown for about 25 days. So the Roha site would be almost totally shut and I can't disclose the exact numbers, but you can imagine that 1/3 of this quarter will be lost in Roha.

Aman Vij: Sure, and the major impact will be on the bulk side, because specialities we would have saved sulfuric acid or we would have managed somehow like in the past.

Bimal Goculdas: So you know it's not possible to stock up because you don't always have the capacity to make extra but in this case, it's in the current scenario the demand itself has slowed down, so we would be able to fulfill most of the demand, but remember this, we are not seeing a great requirement from many segments of our customers at this time.

Aman Vij: So in terms of demand, Sir, is it the European demand which is broadly affected? Or are you seeing a slowdown in the domestic market as well?

Bimal Goculdas: So we do not really distinguish between the two demands, because they're always interconnected. If we supply to a company in India, but that company is exporting to Europe. Then, if their customer is affected, it will affect us as well. So this is a global situation. Everything is interlinked. Yes, we are in a better situation in India than in other countries. Our energy costs is under control, we have a growing population, things like that, but, all the chemicals which would go overseas would get affected directly or indirectly you may sell to US, but the US customer may have its end use in Europe. So then what happens it is a global problem that the situation in Ukraine

is not a problem only for Ukraine or only for Europe. It's a global problem.

Aman Vij: Sure, so if you have to approximately quantify the impact on demand, is it like 10%-20% or is it much more compared to a one two quarters back?

Bimal Goculdas: Tough to say exactly like that, but it is significant. As I said different end-user segments would have different impact, things which you can easily postpone the purchase you will do, but something like medicines you may not be able to postpone the purchase, so you will continue to buy. You may not buy a car, instead of this year, you will buy a car next year or after two years, so all the components which go into the car will get delayed. It's like that all your discretionary expenditure will get delayed.

Aman Vij: But on our company level we would have done the analysis. What portion is discretionary? Either it is intermediate or final versus which is still a very decent demand, so overall company level. What is your estimate in terms of demand side which is not in your control? Impact on demand?

Bimal Goculdas: I can't give you a number of hand.

Aman Vij: Sure, Sir, second question is on the inventory losses which we had in Q2. So is it mostly done? Or do we expect some more inventory losses in Q3 as well? And when will it be over by?

Bimal Goculdas: So we have our accounting standards, we maintain a particular system of accounting where we take a weighted average cost of raw materials, so I think most of the impact would have been seen already in these numbers.

Moderator: Thank you. As there are no more questions, I now hand conference over to Mr. Bimal Goculdas for closing comments over to you sir.

Bimal Goculdas:

Thank you, I would like to thank you all for attending. I know it's been a difficult quarter, but that's part of business and that's why we have the team in place and we have to make plans to take into account all these unforeseen events and my colleagues and I are very much here, we are seeing what's happening and rest assured that we are going to do what's in the best interest of the company. Thanks to Abhishek. Thank you for organizing this call and look forward to better results in the future. Thank you.

Moderator:

Thank you on behalf of DMCC Speciality Chemicals Limited. That concludes this conference. Thank you for joining us and you may now disconnect your lines.

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