



The Dharamsi Morarji Chemical Co. Ltd.

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Q4 & FY20 Earnings Conference Call

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Management Participants

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

Mr. Dilip Gokhale – Sr. Executive Vice President and Company Secretary

Mr. Chirag Shah – Chief Financial Officer



Analyst

Mr. Abhishek Mehra – The Investment Lab

Moderator: Ladies and gentlemen, Good Day and welcome to the Q4 FY19 Earnings Conference Call of The Dharamsi Morarji Chemical Company Limited. 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 “0” and “*” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from The Investment Lab. Thank you and over to you, Mr. Mehra.

Abhishek Mehra: Thank you Mr. Deepesh. Welcome everyone and thanks for joining this Q4 FY20 Earnings Call for The Dharamsi Morarji Chemical Company Limited. The result and investor update have been e-mailed to you and are also available on the stock exchange. In case anyone does not have a copy of the press release, please do write and we will be happy to send it over to you. To take us through the result of this quarter and answer your questions we have today with us Mr. Bimal L. Goculdas – Managing Director and Chief Executive Officer, Mr. Dilip Gokhale – Senior Executive Vice President and Company Secretary and Mr. Chirag Shah – Chief Financial Officer. We will be starting with the call with the brief overview of the company performance which will be followed by 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 constituted as a forward looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risk are included but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual report which we will find on our website. With that said, I will now hand over the call to Mr. Bimal L. Goculdas. Over to you, sir.

Bimal Goculdas: Thanks Abhishek. Good afternoon ladies and gentlemen pleasure to have you all here at our call today. I am Bimal L. Goculdas and with me as mentioned are Mr. Dilip Gokhale and Mr. Chirag Shah. So I will just briefly take you through the business for the last quarter and I am

sure all of you have seen the financials. So we had a top line of about 46 crores and net profit before exceptional items was 6.93 Crores. Here were no real exceptional items as such and as far as the tax is concerned with the reduction in e rates announced by the Finance Minister last year we did not have to pay any tax because we had already paid it in the first three quarters. So as far as the operations were concerned as all of you probably know that the Coronavirus did impact us in the month of March and we had reasonably good operations or at least two months or maybe two and half months for the second half of March all customers were shutdown we also had to shut down our plants both at Roha and at Dahej. I will just point out that although our products are considered essentials, we could not operate the plant because our stocks were full and customers were just not picking up material. I would say thanks to that shutdown we lost about 10 crores of turnover. So apart from that in terms of the profitability it has been a reasonably good quarter not as good as the same quarter the previous year, but better than the quarter ended 31st December. I think you have all probably seen the presentation by now. We have included little bit of background for those who are not familiar with the company and I think with that I will open up to questions.

Moderator: First question comes from the line of Jatin K from Ultra Capital. Please go ahead.

Jatin K: Sir, my first question would be for the full year we have around 15% revenue down so most of that how much would you attribute that to volumes and how much to be the pricing?

Bimal Goculdas: I will tell you how our products work. A lot of our products are based on contracts we have with customers and that contract is normally linked to the raw material pricing. So, this year compared to last year the raw materials were down substantially. I can tell you I do not want to talk exact numbers, but in terms of our main raw material sulphur the average price for 2019-2020 was about 40% or 45% less than 18-19. So impact in lot of our products volumes have gone up, but the top line is down because the prices are lower. The only time during the year we suffered in volumes is during the third quarter October to December where a lot of our overseas customers slowed down their operations and this was felt across the globe whether it is American markets, European markets or the far east, our exports dried up substantially. We think it is more because of them reducing stocks maybe there was uncertainty about the retail market or other markets, but whatever the reason, that particular quarter October to December has a lowest export in a long time and then again it picked up in January. So some of the specialty products which we export saw lower volumes, but overall we had a higher volumes than the previous year.

Jatin K: And sir this pricing volume being passed on to customer this would be in bulk chemicals only or both bulk as well as specialty?

Bimal Goculdas: Mainly in the specialties because the bulk chemicals are commodities like sulfuric acid, they may be connected to sulfur pricing, but they may also not. It depends on different factors and

market conditions. We do not have much control on sulfuric acid pricing whereas for the specialties we have a pass through mechanism.

Jatin K: Sir, in this quarter Q4 results the other income is showing quite a bit jump it is showing as 5.5 crore and in presentation I could not find what is the breakup of this other income?

Bimal Goculdas: There is no profitability impact of other income in this quarter, because this is really regrouping of certain expenses and they are regrouped in the income as well. So for example, couple of things , one was provisions made for certain expenses which were then not required so they were reversed then some items which were classified under raw materials like particular cess on ethanol that is one of the item I can recall we had taken earlier in raw material, but the auditor said that no it has to be classified in other income. So this is like a cumulative effect it has already been taken into account in the previous quarters, but it had to regrouped for this quarter. So, I think somewhere in the presentation we had mentioned that there is no profitability impact of other income in this quarter.

Jatin K: And sir any color, guidance on pricing and volumes for this coming quarter and this full year as in I know there are lot of issues related?

Bimal Goculdas: It is difficult to predict anything under these conditions as you are all seeing the current situation. I cannot make any forward-looking statements. I can tell you that the overseas market is reasonably strong, but the domestic market is still not fully started as yet. What has happened is across the world everywhere except India the entire chemical industry was considered as essential so it was never shutdown whereas in India the classification was made between essential, non-essential and with a lockdown being amongst the strictest in the world. Many of the so called non-essential industry which could be our customers have not yet restarted. So difficult to predict when they will restart and once, they restart what level they will operate at, what will be the impact of migrant labor not being available. So this we are also watching as days go by.

Moderator: Thank you. The next question comes from the line of Jeevan Patwa from Candyfloss Advisor.

Jeevan Patwa: Just few questions on the expansion side in the presentation it has been mentioned that the completion is somewhere first half 2020, so was it something wrong, is it 2020?

Bimal Goculdas: First half of 2021 I am sorry that is mentioned as 2020.

Jeevan Patwa: So when should be the completion?

Bimal Goculdas: So first half of 2021 next year.

Jeevan Patwa: Calendar year you are saying.

Bimal Goculdas: Yes.

Jeevan Patwa: So it would be basically before June 2021 that is what you are saying?

Bimal Goculdas: Yes.

Jeevan Patwa: Okay and that includes both sulfuric acid plant and the sulfone plant right?

Bimal Goculdas: So sulfuric acid plants for sure. As far as the downstream we are considering couple of alternatives and depending on where we get the contracts, we will take a call to invest. We do not want to be very aggressive with borrowings and all under these conditions. Where we have a firm contract we go ahead with that.

Jeevan Patwa: And by when you think you will have the clarify on that?

Bimal Goculdas: By August, September this year.

Jeevan Patwa: And on the sulfone side are we through with actually the two sulfone that you were working on so are we through with all the validations and everything from the client side?

Bimal Goculdas: Yes we are through with the validations, but business has not picked up as we would have liked because partly because of the last few months of turmoil everywhere and also because of the drop in the demand for retail items and things like that where a lot of paper applications are.

Jeevan Patwa: But the validation you are saying is through, right?

Bimal Goculdas: Yes, that is through.

Jeevan Patwa: So we are basically now waiting for the contract from client itself?

Bimal Goculdas: Yes, there will be multiple clients of course and the thing is that we have 50 crore investment. I have already mentioned in the sulfuric acid and oleum and chlorosulfonic acid everything and another about 20 crores for one of the plants. So I do not want to take a further leverage under the current circumstances. If we are certain then we will go ahead further otherwise we will defer.

Jeevan Patwa: If your validations are through than I think the contract should come right?

Bimal Goculdas: No we are competing with China in these products and China has announced the 13% export subsidy. So they are also going very aggressive and they have given many benefits to their manufacturers in order to get back into the markets. So although they were the first affected by the virus they are now back with a bang and I expect that they will be using that 13% leverage to get into lot of business. So not only for us, but I think for India in general this is a

big threat. We are amongst the only country where the chemical industry has been shut down and while China has fully recovered restarted and also provided many benefits to the industry in India nothing has come at all from the government side.

Jeevan Patwa: In sulfur side the China Competition is there?

Bimal Goculdas: Yes majority of the sulfone our competition is from China.

Jeevan Patwa: So basically you are saying you will have this clarify by August, November and then you will go for further expansion there?

Bimal Goculdas: Yes.

Jeevan Patwa: And whatever capacity we have already done in Roha and Dahej, so are they completely utilized right now or there is still some space to get utilize?

Bimal Goculdas: So what we are doing is as I mentioned in the presentation, we are doing some debottlenecking at the Roha where we have the markets visible, but we need to get more output without major investment. We are doing some debottlenecking investment and so while some of our products are at full capacity, but we will be expanding it.

Jeevan Patwa: And the Dahej side also we have done some small CAPEX in last few years 15, 20 crores?

Bimal Goculdas: So we have built multipurpose plants and we have started production on those. They are still not at capacity.

Jeevan Patwa: So that also depends on the contracts from the clients?

Bimal Goculdas: In multipurpose plants we have enough flexible options. If one product is not required, we can move to another one relatively quickly and so those are going ahead anyway and we expect that those will be utilized within the next year, year and half fully utilized.

Moderator: The next question comes from the line of Ankit Gupta from Bamboo. Capital.

Ankit Gupta: Just wanted to understand in this quarter we have reported highest ever gross margins of almost around 56% and finally the impact has not come to the EBITDA margins because of other increases in cost, so just wanted to understand what lead to the significant jump in gross margins?

Bimal Goculdas: So this could be some play where the raw materials went down, but our finished product will adjust in the next quarter so that the gross margin could be more because of that. There was also more specialty business this quarter as compared to the previous quarter as I mentioned earlier. Previous quarter was quite low because of the export market. This time we have had

some onetime cost like some increase where we paid out for the labor on the basis of settlement, we had a large onetime payment. So that has come into this quarter and in some of the other expenses we had improve a several items where were onetime in nature which includes you know we had several disputes with the government on excise, VAT, sales tax all old matters and we decided that whatever the chances it is better to clean up the books and settle all those cases because the scheme was pretty good and so that came as a onetime hit as well and other thing is that we were planning for a annual shutdown. So we had already made certain expenditure which shows in the repairs so that also has come now we did not take the shutdown because of the virus we could not get the people and could not go ahead and we did not want to again extend the shutdown we were already down for 20 days or so. So all this come we will take the next shutdown in the month or in a quarter October to December, but some expenses we made right now anyways.

Ankit Gupta: And how long will be the shutdown during Q3?

Bimal Goculdas: It is typically three weeks to one month.

Ankit Gupta: My second question was on the boron side you know it has been quite a time after we merged Borax Morarji with our company and we have not seen any significant improvement on that side at least on the numbers it is not reflected so I think you can also look in some new products and new specialty product on the boron side if you can just briefly explain?

Bimal Goculdas: So boron business has got affected in multiple ways and if you remember we lost nearly six months or the boric acid registration with BIS last year so up to four, five months not six months, but four, five months we lost and so that took away a chance of business. Even now raw materials are not easily available and it is just been one thing after the other for the boron business. Today even we need to decide what to do in Dahej because there is a shortage of labor all the migrant labor has gone back. So with limited people available we have to focus on the more profitable parts of the business so I will rather do the specialties than do the commodity boron business. This is unfortunately the situation we are in.

Ankit Gupta: So the borrow plant at Dahej will be largely remaining idle is as of now?

Bimal Goculdas: Not largely remaining idle, but certainly would not be at a capacity we would have liked. It is operating at about 60%.

Ankit Gupta: So overall Roha and Dahej if we will not the boron part what will be the capacity utilization during the operating post we commence our operations?

Bimal Goculdas: I do not know which products are you asking about.

Ankit Gupta: Overall in general what will be the capacity utilization?

Bimal Goculdas: Difficult to say because sulfuric acid we are at 95% other products we could be boron business we would be at you know 50%, 60%, but other specialty it depends anywhere between 70%, 80%.

Ankit Gupta: So we are back to February, March before the lockdown kind of levels?

Bimal Goculdas: So except in boron business things are normal just now. As I mentioned the domestic specialty chemical industry has not fully started up yet, I will give you some examples such as the dyes and the pigments people who are our customer the dye intermediates as well, they have not really started their plants. So any sales into there have not gone. We are of course substituting with overseas business. Agro chemicals have picked up, other sectors have picked up including hand sanitizer detergents. So we are compensating that so it is not every product is at a higher level or normal, but we have substituted one market for another.

Ankit Gupta: But how much dyes and intermediates contributing towards revenue?

Bimal Goculdas: See I do not know off hand, but no single sector is more than 10%.

Ankit Gupta: You know last question on the CAPEX side I think in our CAPEX plan we also had three multipurpose plant we were installing at Roha and Dahej, so what is the status of those plants?

Bimal Goculdas: So, work is not going on at the moment because of the lockdown, but at Roha we started some of the foundation work, at Dahej also we started work, but it is still in progress.

Ankit Gupta: I think there were three plants and none of the plants are completed as of now?

Bimal Goculdas: So one of the plants is completed another two what we decided to do you know just I will take a couple of extra minute on this question. When we were at a Ambarnath location and we shifted to Roha some of the plants were housed in existing building at Roha in order to cut cost and now those buildings are becoming insufficient also they have lived their life, , we need to relocate. So we are putting up a new facility, but it is not totally new it is only like a new building with some debottlenecking and most of the equipments will be the same. So this is what is in progress at the moment.

Moderator: The next question comes from the line of f Rohit Nagraj from Sunidhi Securities.

Rohit Nagraj: So few questions in terms of the three segments that we work in bulk, specialty and boron so how much would be revenue contribution from the individual segments?

Bimal Goculdas: So we mentioned the breakup in the presentation see this can change from quarter-to-quarter it is not a fixed number, but roughly the boron business is around the 50 to 60 crore. The specialty chemicals normally would be around 60%, 65% of remaining and 35% to 40% would be the commodity.

Rohit Nagraj: And sir in terms of exports of products which are the products that we currently export and what is the potential that we see in those products?

Bimal Goculdas: So we export most of our specialty and some of them are mature products, some of them are new products. The scope is different I would have to go through each individual product, but some are in the top two, three in the world they are of course mature, the growth also may be less, but in others the growth potential would be more.

Rohit Nagraj: And in terms of raw material I understand sulfur basic raw material so how has been the recent trends in terms of sulfur availability maybe refineries are operating at lower rate maybe the imports have also been impacted due to this COVID-19 issue?

Bimal Goculdas: So interesting question so we have sulfur, ethanol, benzene and caustic lye as our four major raw material and sulfur is number one of course. It is available from refineries in India and overseas. Most of the time we source this locally occasional if there is benefit in price we will import or buy part of an imported cargo and in general there is surplus availability of sulfur because the emission norms for automotive fuel and even the bunker fuel for the shipping they are becoming more stringent every year and so when they become more stringent that means more sulfur has to be removed from the fuels and that means more availability of raw material for us. So as of now we do not see any negative impact, but you know if there is a continued slowdown in consumption of fuels then certainly there would be some impact on availability of sulfur, but we have not seen that as yet. Secondly, the other raw materials are based on international price. Ethanol just now is cheaper from overseas market so we have imported a cargo Benzene we buy mostly local caustic lye also mostly local.

Rohit Nagraj: So what could be the price change in sulfur over the last maybe three, four months have you seen any kind of changes?

Bimal Goculdas: There has been some softening of the price.

Rohit Nagraj: And how has been the sulfuric acid prices will behave on ENR basis and probably if you can just give an indicative number seriously in terms of?

Bimal Goculdas: I do not like to discuss individual product pricing, but for commodity chemicals this last quarter was not a very strong quarter.

Moderator: The next question comes from the line of Keshav Garg from Counter Cyclical Investments.

Keshav Garg: Sir, I wanted to understand that now that you have restarted your plant with social distancing and other precautionary, so sir how much has that led to padding up of cost as compared to pre Corona?

Bimal Goculdas: So you know although we are working with less manpower and we have work from home. We have paid full salaries for month of March, April and May as well we will pay. The only people who we have not paid are those particularly in Dahej where we provided food, housing as well as transport to from the factory they still did not come to work those are the only people we really did not pay everybody else we have paid and we continue to pay. So as such we do not see much of a reduction in people. We expect that we will need these people and we will come back to work full swing. As far as other expenses there would be reduction, but I do not think it is a positive thing for example travel has reduced, but that also means that your customer contact has reduced then our fuel bills and all may have reduced because of people coming and going from work or to visit customer or whatever, but these are all negative thing and they are not something you can sustain. As far as our company is concerned, I think we are already running at a tight cost control and I do not see too much scope of cost reduction at our side.

Keshav Garg: Sir, basically what I am trying to understand have the cost gone up due to your precautionary measures like social distancing and I mean whatever other measures you might be taking as compared to the pre Corona era?

Bimal Goculdas: Cost have gone up to the extent of sanitizing and all this but otherwise it is not a substantial increase in cost. I would say that what will happen is if we do not get all our people working properly full time in the long time we will see some reduction in new business that kind of thing. So it is not a direct cost increase, but an indirect cost increase over a period of time if we do not come back to normal.

Keshav Garg: And also sir we are incurring around 11 crore in repair and maintenance for the full year as compared to around 13 crore last year and the year before it was around 7 crore, so I am trying to understand that what kind of range will this figure be repair and maintenance?

Bimal Goculdas: So, 11 to 13 is a fair number and just remember that from our plants Dahej is sort of a new location and Roha is a location which was originally established in 1978. You know nowadays the requirements from customers from authority for all kind of facilities is increasing. So, we are having to spend more money I think that is a good thing actually from safety, health, environment point of view. So we do expect sizable expenditure I do not think we will save too much on this hit.

Moderator: The next question comes from the line of Mayank Agarwal from Atom Investments.

Mayank Agarwal: Just a couple of them so you aim to diversify into certain chemistry based specialty intermediates competing mainly with the Chinese players as we just said on this call, so two part really to this, is there any proposal for anti-dumping duty from the government because if the Chinese government is supporting the competition then the input price so their raw material are cheaper their manufacturing cost and everything is cheaper and they may not be consuming everything domestically inside the China Mainland or Hong Kong and then they start

dumping in another market, so is there any proposal that our government is taking any anti-dumping duty and B with this US-China cold war type situation emerging, do you see any potential for exports as well as domestic upside if that transform into sort of supply chains actually moving?

Bimal Goculdas:

So this is a very pertinent question in today day just to clarify we compete with other countries also. We have competition in Europe, competition in India and also competition in China. Today, the situation is that the Chinese are far ahead of the rest of the world in terms of tackling the virus. So, all the industries are back and running and the government has recognized that the only way they can get out of the slowdown is by promoting industry. So as I mentioned there is a 13% export subsidy and this will make them more competitive. Apart from that their other cost are already very low including power cost, including their interest cost. So, we have gone to the government as an industry body through the Indian Chemical Council asking for two things. One is increasing our export subsidy today we are getting hardly 1% or 2% and to ask the government to match this and the second is to put a additional duty of 15% on products from China. So far neither of the proposal has been accepted by the government they are still deliberating on it and let us see what happens.

Mayank Agarwal:

So your latest presentation is talking about 30% margins on that specialty the new business on the sulfur side that you are targeting so I know forward guidance and I am not looking for any sort of forward guidance, but more directionally on a blended basis one this is all up and running let us say two to three years down the line, what sort of consolidated margins because you do some commodity business as well as this specialty new business, so any sort of blended margins trend that we can possibly aim for?

Bimal Goculdas:

No, difficult to give a margin number, but as I mentioned, and you correctly said that there are two business segments. Now the way we are set up is we have heart of the plant as sulfuric acid and the downstream products are sort of around that. The same model we are building at Dahej. So our first investment I mean our first major investment at Dahej is going to be a sulfuric acid. So in fact our proportion of commodity may increase in the next year and after that for the next 10 years we would not have to do anymore investment in commodity. So then you will see an investment and more returns because of higher percentage revenue of the specialty. So from our perspective you may see a drop in margins when we go into the commodity and sulfuric acid plant is up and running of course the gross amount will go up although the percentage may go down and then as our specialty plants come on stream you will see the percentage margin rising along with the gross amount.

Moderator:

The next question comes from the line of Amar Maurya from Alf Accurate.

Amar Maurya:

Three questions from my side firstly what is the CAPEX which is already done and if you can bifurcate this CAPEX how much has gone into sulfuric acid and how much we are going to invest into the building blocks for the forward integration of the product, secondly if you can help us

like when we talk about the specialty sulfur based products what would be the overall size of the global market in which we are currently playing or we intend to play so that can help us to understand how big the canvass for us and how much we can capture into that this is my second question and third question is that how we should see the debt level going forward given that we are going to do the CAPEX and bulk of that CAPEX will be from their debt?

Bimal Goculdas: So, first question I will answer I will answer together with the third. We are expecting an investment of about 50 crores in the sulfuric acid plant out of which we made about 4, 5 crores already so we are expecting another 20 crores in the specialty chemical plant and so the debt will be two-third and our own contribution will be one third for this. So we tied up that already and do not anticipate any problems on that side. As far as the size of the market goes it is an ocean sulfur chemistry for you may be a very niche area, but it is not really it is a wide area of I mean I could not put a number on it, but it we could grow even 10 times our size and we still have more room to grow in the sulfur chemistry.

Amar Maurya: So why I am asking this like you know when we say that we are global number one in few product, but if I see the size of our specialty sulfuric acid is round about 57-60 crores today and if I see your sweat asset ratio or fixed asset turnover ratio is around about two times. So when we are putting up a 20 crore CAPEX into specialty is that additional 40 crores can come because the sulfuric acid being your base plant how much of the fixed asset turnover ratio we should see from that particular thing?

Bimal Goculdas: So again typically in a specialty chemical between two to three times you should get, but for sulfuric acid one and half something like that and it depends you know year-to-year 1 to 1.5.

Amar Maurya: And this whole thing will be commissioned as you said that July 21?

Bimal Goculdas: Yes.

Moderator: Thank you. The next question comes from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: Sir, my question is for your market in Pharma and agrochem sir cost on Pharma can you explain in detail in terms of which therapies our products go into and what level of work do we do, are we directly supplying to the drug manufacturer are we supplying to the someone in the middle, so what are the level of are there many companies in between us and the final producer of the drug and same question would also go for the agro chemical?

Bimal Goculdas: So we are directly supplying to the Pharma and agro chemical company you know some of them are listed on the presentation, but you name it and we are supplying to them globally as well as locally and so there is nothing in between. We do not make the actual APIs but we make one step or two step before the API, but we supply directly to Pharma company.

Dhaval Shah: So does it mean you make chemical would go into the intermediate?

Bimal Goculdas: Yeah into API. See API is actually the active ingredient side and after that it is simply a formulation where they put all other things which are not connected to therapy and as far as the question regarding particular therapy, we do not get into that segment at all. We are concerned about the chemistry of the product not the end application. So we do not care about the end application we care about in making that pre API what is the chemistry to be followed and if sulfur chemistry is there we will get involved in it.

Dhaval Shah: So your client drug would be under patent drug or they would be a generic drug?

Bimal Goculdas: Could be generic could be patent could be anything and same goes for agro also. We supply to for example united phosphorus and all that you know we supply to FMC globally. So we supply directly to people who would then sell to farmers for example.

Dhaval Shah: But you will have a contractual agreement for certain amount of quantities you will be supplying to them, would they give you a schedule for the way for you to plan your investment how do you decide if you are putting a CGMP plant or if you are putting a capacity or expanding capacity how do you plan your capacity?

Bimal Goculdas: So what we do is we typically for products where we already have a sizable business they are in dedicated plants. For products which we are developing new, if the volumes are low, we build multipurpose plants and once a product is bigger than the multipurpose plants can handle, or we have good visibility or the volumes are very high then we will move into a dedicated plant. But our business philosophy and I mentioned this before also is to look at those molecules which are not very big in size so which maybe not be of interest to the giants of the world to get into in manufacturing. So therefore, we will retain more competitive edge. I would rather make 10 products of 50 to 100 crores rather than one product of a 1,000 crore.

Dhaval Shah: So yes exactly so I think you mentioned this many times in the AGM also?

Bimal Goculdas: Yes.

Dhaval Shah: So that way your molecular library has to be fairly big for you to have a continuous growth coming in, so any idea on how many molecules are you working at one time from that library how many molecules do you get into the commercial side?

Bimal Goculdas: We do not do a large number of products. It is not like Pharma where you have 40 or 50 molecules and then finally you will end up with one it is not like that. So, we will do a bit of selection, but in our R&D, the team also takes the product from the lab up to the commercial plant level. So we do not work on more than say three or four products at a time.

Dhaval Shah: The product discovery is being carried by the R&D team or the customer you are in constant relation with the customer?

Bimal Goculdas: In the combination of everything you know we are not inventing any molecules we are just developing process.

Moderator: Thank you. The next question comes from the line of Pravin Sharma.

Pravin Sharma: Sir, this quarter the other expenses were high and you gave explanation I just wanted to know how much is the onetime settlement would be coming into this 9.67 crore it is like 2, 3 crores?

Bimal Goculdas: That would come into the employee benefit expenses.

Pravin Sharma: The excise duty and other...

Bimal Goculdas: It was several items and that those cases maybe 50 lakh, 60 lakh each something like that. I would take at least couple of crores extra has come into in this quarter.

Pravin Sharma: No because why I am asking in annual report last year there is one case which is in the contingent liability of 14.33 crores of which we had made appeal and we had deposited 1.43 crores so that is now settled?

Bimal Goculdas: That has still not come up hearing, but that we are quite confident that it will be in our favor in fact other companies who are part of the same cargo at the same time have already got their cases cleared ours is at different level. One is at commissioner level, one is at tribunal, one is at appellate level. So they have not been consistent in the hearing and but nobody has got an adverse ruling in that matter and I will tell you again if you like, but this was a matter of import of sulfur for a period of 2005 to 2007 or something like that.

Pravin Sharma: So is this component would be very high this 14.3?

Bimal Goculdas: If it is against us, but it is not likely to be against us.

Pravin Sharma: So we did not think of settling it against in this dispute?

Bimal Goculdas: The custom matter did not come up.

Pravin Sharma: So hopefully it does not stand

Bimal Goculdas: It would not, we are confident of that and we have got other people orders also.

Pravin Sharma: And sir this China thing you know 13% incentive this is from 0 to 13 they have gone, or it was earlier something?

Bimal Goculdas: They have increased it to 13 which was much less before and there are many more incentives to boost their industry.

Pravin Sharma: So the effect of that pricing for that incentive has already come in the market or it is just to come?

Bimal Goculdas: See they have announced it maybe month and half or so it would start coming into the market. I do not know the exact time of announcement, but at least couple of months it has been around.

Pravin Sharma: Yeah it was around in March I think March 15 or 24 or something?

Moderator: The next question comes from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just one query you mentioned about 8 to 10 crores of COVID related impact in the last quarter, so what sort of impact we are seeing in this quarter till date?

Bimal Goculdas: Again, we lost 10 days of production in April as well at Roha. And we are losing production maybe 30%, 40% of our production at Dahej, but it is tough to quantify exactly we see how the quarter plans out, but as of now Roha is fully operational Dahej as I mentioned is now.

Deepak Poddar: Yeah Roha is fully operational and Dahej is not right?

Bimal Goculdas: Yeah.

Deepak Poddar: Dahej we are at currently what 50%, 60% of original?

Bimal Goculdas: Yes.

Moderator: Thank you. The next question comes from the line of Aman Vij from Astute Investment.

Aman Vij: Just two questions one on the export side if you can get some color so export was I think almost 70, 75 crore last year and this year the number is closer to 45 crore, so any reason apart you can give or any geographies or any customers that he had lost?

Bimal Goculdas: So we lost nearly 15 crores of exports in the previous quarter October, December as I mentioned that was one of the worst quarter for exports in a very long time and I think I mentioned this before either in one of the concalls or something and we do not know why, but it was across the globe. We do not lose business to anybody else, but the customers did not produce. They either cut down their stock or whatever it is, but they did not buy at all it is not that they bought other people product and did not buy our products. So we faced a big problem. The other issue is that commodity pricing has been lower therefore you would see

some impact on the price as well which would account for some of the reduction in the top line.

Aman Vij: So has the volumes basically come back in specialty chemical as well like Q2 or Q1?

Bimal Goculdas: In the international market as I mentioned. Right now, because of Coronavirus domestic market is slow.

Aman Vij: What is the rough split of that say 100 crore specialty business?

Bimal Goculdas: You know it depends like last year we did 45 exports the rest would be local and right now I do not know off hand, but again exports seem to be picking up.

Aman Vij: And my second question is basically on the new products under pipeline you have mentioned amides maybe you can talk about the opportunity and markets in last year we have introduced two, three products so maybe you can talk about those and the growth possibility in that?

Bimal Goculdas: So, we are doing not one, we are doing couple of amides and so far, still small scale let us see how it goes. We are also doing thio compound which is coming along reasonably well. We introduced Lasamide last year. So, Lasamide the volumes have not been as good as we would have liked, but again we expect this year because you know it is again Pharma related so there are audits and approvals and time consuming process. So these are the three, four products I can talk about.

Aman Vij: And roughly opportunity in amides if you can talk about which we are looking at, is it a 50 crore opportunity or a 100 crore?

Bimal Goculdas: So there are couple of different amides and between them about 35 to 40 crores total.

Moderator: Thank you. The next question comes from the line of Anurag Patil from Roha Asset Managers.

Anurag Patil: So in our specialty chemical segment what would be the combined global opportunity side?

Bimal Goculdas: Very difficult to say. As I mentioned I do not know the total size, it is not a published figure anyway, but even if we were to be 10 times our size, there still would be enough opportunity.

Moderator: Thank you. The next question comes from the line of Ashok Shah from LFC Securities.

Ashok Shah: So last two years H2SO4 market was booming so can you just give some rough idea how it is in February and now price wise?

Bimal Goculdas: It is a pure commodity very difficult to project or predict. In the previous financial year 18-19 we had a bumper time on sulfuric acid. 19-20 was a less so in fact in the quarter that we are discussing Jan to March the profitability was limited on sulfuric acid.

Ashok Shah: So it is less than 10%?

Bimal Goculdas: Yes less than 10%.

Ashok Shah: Secondly on the cost side versus China how much power and interest cost and also incentivize how much deeper are they?

Bimal Goculdas: You know that China is about half our power cost. So we pay Rs. 9 or so they pay about 4.5. Indian rupee interest cost is about 10% whereas theirs would be 2.5% and their export subsidies and all are much higher than now.

Ashok Shah: Export subsidy could be 13% plus interest cost?

Bimal Goculdas: It is 13% in fact.

Ashok Shah: Yeah 13 plus interest maybe 7% and also power cost maybe 25% they enjoy profit margin?

Bimal Goculdas: Not like that, because 7% interest differential is only on the borrowing not on the total sale. I mean difficult to add all that up. They certainly have some advantages.

Ashok Shah: And labor cost?

Bimal Goculdas: Labor I am told that now the labor cost has gone up, but I do not have the actual numbers.

Moderator: Thank you. We will take the last question for the day and the question comes from the line of Rajat Setia from Vrddhi Capital.

Rajat Setia: Just wanted to check have we lost any business in last few days because we were not operational while other manufacturers across the world were operational during this time?

Bimal Goculdas: See we were down for about 20 days or so, so during that time it is not that people cancelled. But when India shutdown, it gives a bad signal to the rest of the world that can we be considered a reliable supplier because the virus was all over the world, but no other country shutdown the chemicals because it was considered essential. Now this will have some impact when India next time goes to make long term customer supply contract that is on a negative side. On the positive side is that people will look for an alternate to China. For China you must remember is at least 10 times as big as India in terms of chemical industry and so even if people take away 10% from China and give part of it to India, part of it to Malaysia, part of it to

Indonesia it still a big thing for us. So we are still very far away we are tiny in size compared to Chinese.

Rajat Setia: And sir up to 100 crore about sales or specialty in FY20 how much came from sulfone?

Bimal Goculdas: So sulfone would be around less than 15%.

Rajat Setia: Less than 15 crores?

Bimal Goculdas: Yes.

Rajat Setia: And of the 100 crore CAPEX 50 going into sulfuric acid, 25 is going into some specialty and the balance 25 is going into?

Bimal Goculdas: So we have not decided that yet. One was going to the sulphone, but we have not decided on that investment.

Rajat Setia: So this 25 that we are paying in specialty which was going it is no sulphone, but another participant talked about that this is work in progress multipurpose plant?

Bimal Goculdas: This will be a dedicated plant not a multipurpose plant we are putting up just now. The investment in multipurpose plant is not significant.

Rajat Setia: So just to get clarity so on the specialty side what is the revenue capacity that we have as of today I mean how much we can sell from our current capacity in the specialty side?

Bimal Goculdas: So as it stands today we could go up by at least 50% without making any further investment.

Rajat Setia: And some of the CAPEX is like at the moment I think 25 crores of CAPEX is under 20 crores and that will again add another 50, 60 crores?

Bimal Goculdas: 40 crores we think 2:1 we think.

Rajat Setia: And another 20, 25 crores is undecided where we are going to put that right?

Bimal Goculdas: Yes.

Rajat Setia: On the other income side you mentioned that it is nothing, but largely reclassification or couple of other things you mentioned, but I just want to check how much of that is not going to come next year onwards or it whole regular in nature and will occur every year?

Bimal Goculdas: The regrouping is a onetime thing, but we have things like engineering services, we do some fertilizer royalty and all so about 1.5 out of this would be a regular business and as I mentioned there is no profit impact in this quarter of that particular other income.

Rajat Setia: What do you mean by that there is no profitability?

Bimal Goculdas: It is a regrouping so even the expenses have been changed and our income has come into other income.

Rajat Setia: So that regrouping basically has happened in this quarter and from now onwards this is how we are going to report it?

Bimal Goculdas: Yes.

Rajat Setia: So that means going forward regarding some might look a bit higher?

Bimal Goculdas: It is not that kind of other income you know. This was some adjustment on excise, some cess on the transport, then it was some cess on ethanol duty something like that. So it was a combination of things which were previously classified in a different way and now we are classifying in a different way so it may not come up every year.

Rajat Setia: And sir finally on the opex side you talked about some of that was onetime just wanted to check how much of that is onetime, so in this year if I talk about I think in this quarter we incurred overall expenditures of around 23 crores I think in this quarter and which includes employee cost as well and the repairs cost as well, so just wanted to check the same number was you know I think 15, 16 crores over the last three, four quarters, so how much of that is not going to happen from next quarter onwards?

Bimal Goculdas: No which are you looking at, which 23 crores?

Rajat Setia: So this is basically some of employee and repair cost as well as in OPEX that will go?

Bimal Goculdas: It is a power fuel labor and all that cost will come as I mentioned there was onetime cost jump in this quarter for the workman. Repairs also there was part of it attributable towards the annual shutdown expense, but mostly this will continue.

Rajat Setia: So that couple of crores that you mentioned is onetime settlement with government that is broadly one thing that will not continue and repairs to machinery and buildings which has happened in this quarter will only reoccur?

Bimal Goculdas: So what we have done is what we have spent in October to December part of it has come in now already.

Rajat Setia: And the total did you mentioned somewhere the total shutdown OPEX whenever that happens it is around how much crore did you say?

Bimal Goculdas: Total OPEX is not that much it depends on what exactly what work is done, but between 2 to 3 crores.

Moderator: Now I would like to hand the floor back to Mr. Abhishek Mehra for the closing remarks. Over to you, sir.

Abhishek Mehra: Thank you for logging the call today if you have any other further query you can always email them to us. Our email IDs have been shared on the latest press release uploaded on the stock exchanges. Thank you all once again for your participation.

Moderator: Thank you. That concludes this conference for today. Thank you for participating you may all disconnect now.