



November 11, 2021

To,
The Manager,
Listing & Compliance,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.

Ref: Scrip Code - 506405

Sub: Transcript of Conference Call held on November 02, 2021 with investors and analyst on the financial performance of Q2FY22.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015, we are enclosing herewith the transcript of Conference Call held on Tuesday, November 02, 2021 at 4:00 p.m. (IST) with investors and analyst on the financial performance of Q2FY22.

The said transcript will also be made available at the website of the Company at <https://dmcc.com/investor-information/announcements>

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

Thanking you,

For The Dharamsi Morarji Chemical Company Ltd

Omkar C. Mhamunkar
Company Secretary & Compliance Officer
Membership No. ACS 26645
Encl : As above

CIN NUMBER: L24110MH1919PLC000564



THE DHARAMSI MORARJI CHEMICAL CO. LTD.

The Dharamsi Morarji Chemical Company Limited

Q2FY22 Earnings Conference Call

2nd November, 2021

Management Participants

Mr. Bimal L. Goculdas – CEO and Managing Director

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 Earnings Conference Call of The Dharamsi Morarji Chemical Company Limited. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the opening remarks conclude. 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 the Investment Lab, thank you and over to you, sir.

Abhishek Mishra: Thank you. Welcome everyone and thank you for joining this Q2 FY22 Earnings Call for The Dharamsi Morarji Chemical Company Limited. The result and investor updates have been emailed to you and are also available on the stock exchange. 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 the quarter and answer your questions we have today with us Mr. Bimal Goculdas - Managing Director and Chief Executive Officer. Mr. Dilip Gokhale - Executive Director, Mr. Chirag Shah - Chief Financial Officer and Mr. Omkar Mhamunkar - Company Secretary and Compliance Officer. We will be starting the call with a brief overview of the company's performance. It 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 constituted as a forward-looking statement, must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks this are included, but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you'll find on our website. With that said, I will now hand over the call to Mr. Bimal Goculdas, over to you sir.

Bimal Goculdas: Thank you Abhishek. Good afternoon to all the investors who have joined this conference. Thank you for your time. I'll take a couple of minutes to brief you about, the operations, for this quarter.

As you have probably seen from the results, the top line for the second quarter is almost the same as the top line for the first quarter. Just a small increase, it's substantially higher in terms of top-line compared to the same quarter in the previous year. This is a common phenomenon across all industries, at least all the chemical industries that is, the prices particularly of the raw material, had increased substantially during this quarter. If you compare the consumption of raw material it's up by Rs. 6 crores, compared to the previous quarter and the top line is up by just about Rs. 1 crore. As you are all aware, the specialty chemical business of the

company, which is about two thirds of our business, we can compensate for increase in raw material costs. That will happen in subsequent quarters, not in the same quarter, because normally we have quarterly or half yearly agreement. As far as the bulk chemical business is concerned, which was about one third of our total sales it was a flat quarter in terms of pricing. While the raw materials went up, we could not pass on substantially the prices to the customers. The other part of this is, the freight component has increased, which is again global phenomenon, ocean freight has gone up across the board and we have made paying much more per container for our export than we did in the past. It has also been a challenge to get adequate containers. We see this challenge continuing for the time being. What we have done though, is, in a lot of cases in most of our overseas business we have ex-works or FOB pricing built-in. A lot of the container freight increases will be passed on to the customers. However, in this quarter at least between 1 and 1.5 crores had to be absorbed by us.

As far as the projects are concerned, we are working on a major project at Dahej and we expect that to be commissioned in this quarter. It was slightly delayed because of excessive rain at Dahej, which didn't allow us to do, the work as we would have liked. Prior to that, of course there was COVID related delays, in supply of equipment, but things are getting streamlined now and we expect to commission this quarter. The debottlenecking and expansion at Roha is also underway and completed as of now. We have also done multipurpose plant at Dahej which we will be commissioning shortly. With that, I would like to pass it back to Abhishek and open the floor to questions.

Moderator: Thank you, ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Vidya Verma an Individual Investor. Please go ahead.

Vidya Verma: My question is on the R&D front. If you could help us understand how we are progressing in our R&D, because earlier you mentioned that, focus is on amides, Thiols and sulfones, but currently sulfones is on hold. Have we made any progress in Amides and Thiols, are we working with any new product? If you can give some information it will be really helpful. Even if you don't want to share them it's fine and also follow-up question on sulfones. Are we reconsidering the sulfones CAPEX, I understand the end user market has now started the pick up?

Bimal Goculdas: Sulfones is not just one product, it's a multiple product. What we had planned was dedicated plant for one of the sulfones. Thanks to full COVID slow down last year, we decided not to progress with this, as the demand in the end applications, which was mainly thermal paper, would not have materialized. We would be entering a market there would be too much competition. We didn't want to put resources at that time. Then we've been investing our time and money other projects at Roha and Dahej

both where we have better visibility on the end use and we have contractual customers in place. So we've decided to progress on those. Now until our current investment cycle is over, we will not take up any additional investments. Until Q4 of this year, we don't expect to start any new projects. Just to inform you though that, the process development on the sulfones, even the one which we have held up the investment is complete and we have a viable production process, which we will invest in at the right time.

We are continuing to do these sulfones in our multipurpose plant. We have customer validation and things like that happening, but we will not invest in a dedicated plant at the current time. The market is in the meantime, looking much better than before, there is more visibility. As and when we can allocate the resources, we may decide to invest. R&D meanwhile is continuing to work on an alternative process for Thiols. We are doing other sulfones as well. We are doing the Amides and working on other intermediates, for the pharmaceuticals, for the agrochemicals and for the coking industries. So, and also our R&D is active in debottlenecking our existing plants. So, that's been our focus at this time.

Moderator: The next question is from the line of Jeevan Patwa from Candyfloss Investment Advisors, please go ahead.

Jeevan Patwa: I want to understand, in the bulk commodity you are saying, the prices has been stagnant. The raw material price has gone up, so if I look at sulphuric acid prices, it has actually been very strong. So, I could not understand why there's the margin contraction in bulk chemicals.

Bimal Goculdas: Now, I wouldn't get into the specifics of the pricing, but what I can say is that during this quarter, which is July, August, September, the sulphur price increase was much more than the acid price increase and which resulted in, contractions in the bulk chemicals margin. Any increase would have happened post that, not during this time.

Jeevan Patwa: Secondly, in case of our CAPEX plans, the initial two projects were actually completed, 20 crores CAPEX is already done and 50 crores CAPEX on sulphuric acid plant is going to be commissioned in this particular quarter. That's what you said, right?

Bimal Goculdas: Yes.

Moderator: The next question is from the line of Jinesh Shah an Individual Investor. Please go ahead.

Jinesh Shah: Previous quarter's call you had mentioned that you are going for listing on NSE, the National Stock Exchange. So have we any update on the same?

Bimal Goculdas: Yes, we've already applied last month, for listing on NSE and the application is under scrutiny and we expect, it will go through the due process and we'll keep you informed about listing on that. But it is already been applied for.

Moderator: The next question is from the line of Jatin K from Alpha Capital, please go ahead.

Jatin K: My first question would be on the margins and passing on this raw material price. Has this process already started or we expect some more time for this to happen?

Bimal Goculdas: So, like in the bulk chemicals, we can't really guarantee that we can pass on the price up or down to the customers. But in the specialty chemicals, there is better visibility and better continuity and with limited suppliers and limited customers. Normally we have long-term contracts, which are based on the raw material prices, but they are adjusted on a quarterly or half yearly basis. It depends on what we decide with individual customers. So, with recent increases like the increase during July, August, September, that would be passed on in the October to December quarter and so on.

Jatin K: We used to take annual shutdown maintenance for a month. When is that plan for the next one?

Bimal Goculdas: We don't expect to have it during this financial year.

Moderator: The next question is from the line of Dhwani Desai from Turtle Capital, please go ahead.

Dhwani Desai: I have two questions. The first one is, like the longer term question and maybe we require some strategy related input from your side. So, we are doing 30-40 crores profit run rate, in last one, one and a half, two years we have invested 80-100 crores on the CAPEX. Now, as you said, that we will initiate, new CAPEX only after once we stabilize there. But, looking at, when you actually start utilizing this capacity, we may be generating much higher profit with that, will our incremental CAPEX plan be bigger and are we positioned in terms of product pipeline and everything to ensure that we are able to invest this capital and higher profits into the business, if you can open light on that?

Bimal Goculdas: So, your question is right, that after once we start generating cash flows, from this investment, we expect to have much better, in terms of our cash profit. So, certainly we would be able to do more projects with less leverage. I've also mentioned that, in the past call that the current investment includes a large part of it in the bulk chemicals, which is sulphuric acid plant at Dahej and further on in Dahej, as well as in Roha, all our investments for the next few years would be on the specialty chemicals side and what we have looked at historically is focused on products which would give us a better margin than a better top line. I'm not sure we will actually go

into bigger projects, but we will certainly go into more, specialty chemical projects, which have a better bottom line percentage. So, certainly our appetite and our ability to handle multiple investments, will be better with improved cash flows, but not necessarily that we will go for bigger products, if that was your question?

Dhwanil Desai: No my question was more with respect to the redeployment of the higher profits and probably what you are saying is that maybe you will take up multiple such project, maybe for other product where you can maintain margin is that understanding correct?

Bimal Goculdas: Yes. We have enough products in the pipeline for that.

Dhwanil Desai: Second question I think, if understanding regarding this contract manufacturing CAPEX that we have done, is our understanding correct that this is more of a initial testing out kind of a phase and if all goes well, there is opportunity subject to mutual agreement, to kind of scale it up and do much larger investment and contract for the more key products or more products any thoughts on that?

Bimal Goculdas: No, no, this is actually the word contract manufacturing may not be exactly correct. It's manufacturing under a contractual agreement. Probably if Abhishek is listening, we might just need to adjust that, its manufacturing under the contractual agreement, it's not typically the contract manufacturing the term that we would use. But this is for a particular customer who would be our anchor customer and the investment we're putting would more than fulfill the need of this particular customer. So there's no question of further scaling on this.

Dhwanil Desai: Last question on this boron side. On the boron side we have been facing challenges on RM side for quite a while. Any resolution on site from regulatory perspective or you think that we know we will have to live with whatever it is today?

Bimal Goculdas: We are taking up the matter with the Ministry of Chemicals as well and also with the Ministry of Agriculture, at the moment it's a status quo. We haven't made any headway. So, we'll see where to go, again we will take a decision.

Moderator: The next question is from the line of Jinesh Shah an Individual Investor, please go ahead.

Jinesh Shah So, of lately we are reading that China market is slowing down and then where as US market is continuously growing and going up. Any color on how our company has some kind of opportunity of this and some color on the market itself?

Bimal Goculdas: In general, there are supply challenges from China. You have been reading about electricity issues and other issues. At the same time, there are logistical challenges to transport materials from anywhere to anywhere. Whether it's from China to India,

India to US, India to Europe, doesn't matter, there are just not enough containers right now. There is a lot of increase in ocean freight. So there are different challenges. Now, what has happened in the recent past, because of lot of the geopolitical developments, people are looking at replacing part of their procurement from China, with other sources. India is a natural beneficiary of a China Plus One policy and we are seeing some direct as well as some indirect benefit of that. But at the same time, European and American companies may also like to start manufacturing, backward integrated products at their own in their own country. It's not necessarily that they will come to India only. They may go to other third countries or they may bring the product manufacturing home. At the moment, there is a constraint from China. Also not to say that the Chinese will not, eliminate those constraints. There've have been very good in the past overcoming these issues. They have huge capacities they have huge resources, if they choose to they could probably resolve their issues in a few months' time on the supply side. On the geopolitical side, it's a slightly different story. We will have to see how this develops, but the kind of products we are in, we have been competing against China and in future also we will continue to do the same.

Moderator: The next question is from the line of Vidya Verma an Individual Investor, please go ahead.

Vidya Verma: I have couple of questions, so I will start with the first one is on the financial side. In the last two quarters our top line had moved from Rs. 50 crore a quarter to around Rs. 70 Crore. Just wanted to understand how much is price driven and how much is this in volume driven?

Bimal Goculdas: I don't have exact numbers, but I can tell you that, in the specialty chemicals, there's been a growth in the volume side as well as the price side and on the bulk chemicals, it's not been as good, they could have been stagnant or even a slight decline. We haven't yet seen the impact of our investment yet, up to the Q2 results. So, most of this or a large part of this would be due to the price increase and not the volume increase and in special cases there is volume increase as well, but I'm talking about overall.

Vidya Verma: As I was saying it is a financial question, in the last two quarters, I am sorry, we are witnessing there are a lot of chemical companies, the companies haven't been able to pass on the rising input cost to the customers, especially in this inflationary environment. My question is, what are we going to do as a company to overcome this challenge, what is our plan to do that and also, would we be able to pass on the entire increase or will there be some sort of dent in our margins especially in the near future? Especially until the operational environment does not become better?

Bimal Goculdas: I can't give you specific, forward-looking answers to this, but what I have said in the past, is that which stands true today as well, is that for most of our specialty chemicals business, we have contracts wherein the price of raw materials is factored in. Any increase in the price of raw material is fully passed on to customers. Only there could be a delay of a quarter or two depends on whether it's a six-monthly contract or quarterly contract. In the bulk chemical, which is about one third of our business, there is no such formula pricing, so that is completely sort of market dependent.

Moderator: The line for the current participant has got disconnected. We'll move on to the next participant that is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My question is related to the capacity utilization, which we are targeting for the 3 CAPEXs, basically multipurpose plant, debottlenecking, as well as the sulphuric acid plant which is coming up in Q3. For Q3 and Q4, what kind of utilization should we expect in these 3 CAPEX, as well as by when can we expect full utilization of these 3 CAPEX if you can talk about them individually?

Bimal Goculdas: I can't give you a specific answer on that. Again, that's forward-looking. What I can tell you is that, the bulk chemicals plants we have to run, so the acid plants we have to run at 70% plus capacity, most likely 90% plus, which is a given. We have customers for that, even debottlenecking at Roha, the specialty chemicals at Dahej, we have good visibility on the customer side, but I can't give you a number on capacity utilization and in general, we are making these investments that I've said this before, because there is a pull from the market side.

Aman Vij: Final CAPEX will be coming by Q4, which is that specialty part that is still on track?

Bimal Goculdas: Yes.

Aman Vij: My second question is, on the new product side, if you can talk about what kind of traction are we seeing in 2-3 products which we have recently launched an update basically compared to last quarter?

Bimal Goculdas: So, basically on the Amides, we are seeing good traction, Thiols is slightly slower than that because of some raw material supply restrictions, but on the other sulfones, which we are doing, we're seeing good traction as well. So from the market side, I can make a general statement that we have no issues at all at this time. Really the challenge is to get our plants up and running as soon as possible.

Aman Vij: The final question is on the boron site. You had roughly hinted in last con call about a possibility that we might need to go for some more on boric acid CAPEX if the

situation doesn't change. When can we expect any further update on the decision whether to go for backward integration?

Bimal Goculdas: Yeah, that is still not decided. And currently, our hands are full with our existing projects, so we are not willing to take on another project on our plate. And, we will take a decision on this by end of December, but really we won't start the investment until this CAPEX cycle is complete, which is by April. But, we reiterate what we said earlier that is, we don't make any headway in sourcing, we have to manufacture.

Aman Vij: If you can talk about what is the utilisation in that boron site currently which we are running?

Bimal Goculdas: It is around 60%.

Aman Vij: If my assumption is right we would have shifted more towards the specialty part, given limited raw material available on the boric acid kind or will be similar when the utilisation was higher?

Bimal Goculdas: Could you repeat your question?

Aman Vij: We had both commodity part in this business as well as specialty part, so my question was given the limited availability of raw material, the assumption is right that we would have shifted more towards specialty part or the mix will be similar to what it was last year, boron business?

Bimal Goculdas: Of course we would like to move more towards the specialty part but it is not only a question of availability, its availability at the right price. So, the boric acid, which is available in India is at a much higher price than what we would need to optimally utilize our specialty chemical downstream acids. This is why we need to either have our own boric acid manufacturing or get import permit.

Aman Vij: What could the quantum of increase of the boric acid ..(voice missing)

Bimal Goculdas: Sorry say it again?

Aman Vij: What is the difference in price between imported boric acid versus what is available in India?

Bimal Goculdas: Offhand I don't know an exact number, but I know it is then more than a 30% difference, around 30%.

Moderator: The next question is from the line of Ankit from Bamboo Capital, please go ahead.

Ankit: In the CAPEX if you can tell is what can be the asset turns individually of the 5 CAPEX that we are undertaking?

Bimal Goculdas: Again it varies, because again it depends on raw material prices and all, but in general, for the bulk chemicals, it is 1to1.5x and for the specialty chemicals, it could be anywhere 1.5 to 2.5 in that range.

Ankit: For the multipurpose plant CAPEX that you are undertaking at Dahej, that can also be 1.5 to 2.5x?

Bimal Goculdas: Yes. Multipurpose plant, it's not necessarily correct that you will always utilize the capacity. Whereas the dedicated plants, we have much better visibility, multipurpose plants by definition would be more flexible, but also, would not have the same kind of efficiency as a dedicated plant would have. They are more for product development or in initial stage, market seeding and things like that. It's not necessarily that you can say that, oh, there will be so many x, in terms of, turnover issue.

Ankit: And this intermediate plant, what kind of asset turns?

Bimal Goculdas: Sorry?

Ankit: In the intermediate plant that we are undertaking at Dahej what kind of asset turn can we generate?

Bimal Goculdas: That also will be in this specialty chemical range.

Ankit: All these CAPEX plants will be completed by the end of FY22 and will see ramp up in all these sites which we are undertaking in FY22, can we expect the company to start the next leg of CAPEX as you are saying you already have projects from FY24 onwards or will take some more time to stabilize this CAPEX and then go for another?

Bimal Goculdas: Sorry I couldn't understand the last part of your question? Are you on a handset?

Ankit: I was asking all these CAPEX plants will be completed by end of FY22 and most probably FY 23 we will see good ramp up in all the five projects that we are undertaking. Given at least for the sulphuric acid plant, this speciality chemical plant and the Roha debottlenecking. We have already seen visibility on the ramp up, so given that can we expect the next round of CAPEX to be started by the company let's say by end of FY 23 or starting of FY 24?

Bimal Goculdas: Yeah, surely. I mean once this is complete, which is April 2022 then and we start generating cash flows. We will look at the next stage of CAPEX. We can't as I said,

we're not committing anything on that, but what I am committing is that until this is over, we are not going to do any more CAPEX.

Ankit: It is not something that we will reach a certain capacity utilisation then only will go for the next round of CAPEX, because the sulphuric acid plant at Dahej, and speciality chemical and debottlenecking at least goes into have decent visibility on revenue ramp up side?

Bimal Goculdas: Yeah. So, we will take a call on further investment, but right now, all I can say is we are not going to do anything till April.

Moderator: The next question is from the line of from Jeevan Patwa from Candyfloss Investment Advisors, please go ahead.

Jeevan Patwa: You said, that you may think of putting a boric acid plant if not able to import it. So, do you see the similar kind of ROCE, hurdle ROCE and you say the new CAPEX is 30%. Do you think we'll be able to make that ROCE in this boric acid plant?

Bimal Goculdas: The boric acid plant would be more in, like a bulk chemical, than a specialty chemical. It's not specialty chemicals by any means. It could surely have the bulk chemical type of margins and I also want to repeat that, we can never compete internationally on technical grade boric acid made in India because, our scale of operation is very small compared to the global competitors. There is no availability of the raw material in India. Our global competitors are sitting on their own mine and their capacity is of hundreds of thousands of tonnes. Whereas we will be talking about 10,000 tonnes, something like that. So we will never be able to compete. This is why we have not made the investment all these years. It doesn't make logical sense if you are in a free market, but if we continue to be in a controlled market, then we'll have to take that call.

Jeevan Patwa: But, is it like if we really think that we are not in a controlling position, does it make sense to even not look at it then the boron business?

Bimal Goculdas: So we'll take a call. We haven't decided yet.

Jeevan Patwa: We not necessarily need to focus on boron business. If you have better opportunity elsewhere, we can even think of putting money somewhere else?

Bimal Goculdas: Absolutely. We will take a call at that time. We'll take a view on Government policy. If Government policy remains as it is, there could better returns, if Government policy is changing then we may take a different view. Also, we look at the market for our downstream products, because our downstream products capacity utilization will increase and our volumes will increase if we have our own boric acid. That's another

factor in the decision-making, so it's not a simple decision and we'll take a call at the right time, but right now we are not going to make any investment decisions.

Moderator: The next question is from the line of Hiten Boricha from Joindre Capital, please go ahead. I

Hiten Boricha: I have only one question that is on the bulk chemical side. You mentioned that sulphuric acid prices are gone up 20% to 25% but we are not able to pass the prices to the end consumer. What is the reason for that? Why can't we be able to pass the price?

Bimal Goculdas: No, I didn't say any indication on percentage increase in the sulphur price. I just said there is a substantial increase. The reason we can't necessarily pass it on always is because it's a pure commodity and it is by definition, not linked to your costs. Competitors maybe selling it, below cost, there could be surplus availability from import. They could be surplus availability from byproducts, a wide variety of reasons, but it's not necessarily, we don't have any formulas, which would link the raw material price with the finished product price, unlike in our specialty chemicals business.

Hiten Boricha: One more question, sorry it may be a basic question as I am new to this company. What are the end user like, what other segments that sulphuric acid is actually used and made this segment?

Bimal Goculdas: It goes on everything, it goes in all chemicals from pigments to dyes, to fertilizers, to agrochemicals, to tin plating of steel, it goes in a wide, wide range. It's a very basic chemical, which goes into every industry almost.

Hiten Boricha: Just to clarify that demand is very good, but, because of the commodity side, we are not able to pass the prices to the consumer?

Bimal Goculdas: Yes, yes. We may or may not be not be able to, sometime we may be able, it is pure market linked there is no predictability.

Hiten Boricha: Just if you are able to pass the price, are we looking for a margin again up to 15%-16%?

Bimal Goculdas: That's a hypothetical question I can't answer them.

Moderator: Thank you. Ladies and gentlemen, that was the last question, I now hand the conference over to Mr. Bimal Goculdas for his closing comments.

Bimal Goculdas: Thank you all for being present and for all your questions and for showing interest in DMCC. Thank you to the Investment Lab for setting up this as well. I trust I've been

able to answer all your questions and we'll continue doing these conferences regularly and try to keep you updated as best as possible on progress that we are making on our projects, as well as, on our new products, existing products, etc. So, thank you all again for your support.

Moderator:

Thank you. Ladies and gentlemen on behalf of The Dharamsi Morarji Chemicals Company Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.