



Valiant Organics Limited

November 16, 2023

To,
Listing/Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001.

SCRIP CODE - 540145

To,
Listing/Compliance Department
**National Stock Exchange of
India Limited**
"Exchange Plaza", Plot No. C/1,
G Block Bandra-Kurla Complex,
Bandra (E), Mumbai- 400 051.
SYMBOL- VALIANTORG

Sub: Transcript of Earnings Call.
Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements)
Regulations, 2015.

Dear Sir/Madam,

Please find enclosed herewith the transcript of Earnings Call held on Friday, November 10, 2023, on Audited Financial Results of the Company for Q2 FY-24.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For VALIANT ORGANICS LIMITED

Avani D. Lakhani
Company Secretary
ICSI M. NO: A47118

Encl: as above

Valiant Organics Limited
Q2 FY24 Earnings Conference Call
November 10, 2023

Moderator: Ladies and gentlemen, good day and welcome to Valiant Organics Limited Q2 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Amit Thakkar: Good afternoon everyone and a very warm welcome to you all. My name is Amit Thakkar from Valorem Advisors. We represent the investor relations of Valiant Organics Limited. On behalf of the company, I would like to thank you all for participating in the company's Earnings Call for the Second Quarter and the First Half of the Financial Year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, let me introduce you to the management participating us in today's earnings call and I hand it over to them for the opening remarks. We first have with us Mr. Arvind Chheda, Managing Director and Mr. Mihir Shah, Senior Finance Manager. Without any further delay, I would request Mr. Arvind Chheda to start with the opening remarks. Thank you and over to you, sir.

Arvind Chheda: Thank you Amit. Good afternoon, everyone. It's a pleasure to welcome you as our earnings conference call for the second quarter and the first half of the financial year 2024. Within Q2 the overall performance for the quarter was

impacted during mainly due to the low agrochemicals demand. While we saw a reversal in demand, dyes and pigment segment showcase an increase in sales volume. Our PAT, product actual and average of 455 metric tonne per month in this quarter, it peaks at 506 metric tonnes in the month of September. It is important to note that prices of all the products have corrected significantly. Even though the growth from the sales volume was around 7%. It was neglected by 5% due to the price corrections. Looking ahead with factors like growing volume and PAP stabilized from 84 progress in Ahmedabad and OAP nearly completion. We are optimistic that the Financial Year '25 will bring about more prosperous year for us. Now, I hand over the call to our Senior Finance Manager, Mihir Shah who will take you through the financial highlights for the quarter. Thank you, over to Mihir.

Mihir Shah:

Thank you and good afternoon everyone. And welcome to the earnings call. I hope you had a chance to study our financials and earnings presentation which we have uploaded on our website and exchanges. Let me start by briefing you on the company's financial performance on the consolidated basis for the second quarter, and then followed by the performance of the first half financial year 2024. For the second quarter the revenue from operations declined by 23.1% on year-on-year basis, but grew marginally by 0.6% on quarter-on-quarter basis to around Rs.203 crores, the EBITDA reported was around 16 crores and the EBITDA margin for the quarter was 7.63%. Net Profit reported was around five crores and PAT margin for the quarter were about 2.3%. Our revenue contribution from the business segment as follows, hydrogenation accounted for 47%, ammonolysis chemistry accounted for 26% and chlorination at 19%.

Coming to the first half of the financial year 24. The revenue from operations stood at around 405 crores which was a decline by 23.6% on a Y-o-Y basis. With EBITDA of 39 crores and EBITDA margin was about 9.73%. The net profit stood at around 20 crores was 4.87%. For this first half the revenue contribution from the chemistries are as follows, hydrogenation accounted for 43%, ammonolysis was 26% and chlorination was 24%. Thank you and I would like to open the floor for 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 Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: I just wanted to get the management sense on capital allocation in the form of a buyback. The reason being, I believe a lot of our CAPEX is done and we've mentioned in the past that for the next two, three years, we are not doing any major CAPEX. And it is noticeable to see that our stock price is actually below the price at which we were trading during the COVID period. This will be a good way to reward long term shareholders who want to stick on with the company and the promoters also can increase the stake in the company indicating the long term faith in the company. So, just wanted to know the company thoughts on how do you think about buybacks in general?

Mihir Shah: Thank you, hi Rohit so, this is Mihir. So, buybacks is definitely an area that we are looking at, but given the current cash flow situation and also we do have CAPEX yes you are right we don't have any major CAPEXs to the tune of 100 crores or 200 crores of big project, but we do have smaller, smaller projects of 20, 25 crores that will keep continue to come in. So, for that particular reason we are right now for the moment we are looking at retaining that cash for utilizing towards that CAPEX, even for the current year we are going to do a CAPEX of around 80 to 90 crores So, for that we will need the cash flow that is coming in if you look at our PAT, it is quite low from that perspective. So, we are in fact looking at a term loan also. So, as far as buyback is concerned from the management not in the immediate future, but maybe going forward something could arrive.

Rohith Potti: Sure. So, a couple of questions here. So, one if you could elaborate, so what is the maintenance capital expenditure for our company and what is the 80, 90 crore that we're spending on this year that was one. And second part of it, buyback is sort of a tricky situation. So, the stock price is **-8:05** when there is pessimism and when things normalize the price tends to increase and the buyback becomes relatively less attractive. So, how do we think of this trade off in that context?

Mihir Shah: So, right now, to answer your first questions, our maintenance CAPEX comes around 20, 25 crores, 30 crores on an average, but, what happens is that most of our units are quite old. So, every year we take up one particular unit and kind of work towards it, de-bottlenecking, making the built facade infrastructure little better. So, for that purpose, so for example, Ahmedabad where our CAPEX is around 18 to 20 crores which is happening in this year is a part of that process, even our Sarigam plant, Tarapur plant these are old plants so we need to put up our ETPs, chain some high level like warehousing or something of that sort. So, all of those come in that's a total breakup of what CAPEX we

are planning to do in that 80, 90 crores, 30 crores is about maintenance, other thing 20 is a little bit more towards process changes on PAP level. So, these are the two big ones, Ahmedabad and PAP and the others are smaller, DCS system is coming in at Tarapur so we are putting that, Vapi R&D center is coming in. So we are trying to do work around that. So those are the kinds of CAPEXs that we are doing. To answer your second question, yes when things normalize, the prices will increase, so buyback becomes difficult. But at the same time we are right now more focused about these CAPEXs that we have to do because some of them involve de-bottlenecking so as we prioritize that right now.

Rohith Potti:

Understood sir that was helpful. Could you give a little more of a update on PAP and OAP, have we set the 600, 800 per month target that we have set out to achieve or does it require the 20 crore CAPEX that you were talking about. And, I believe in the past, you have mentioned around this time, you will be able to give a clarity on OAP as well. Also in addition to that, there is a pharma intermediates also, if you have begun supplying to RB pharma labs will be helpful.

Mihir Shah:

So, I will start with PAP. So, our earlier guidance was that by first half we will touch 500 tonnes per month. So, we have successfully touched that, we have crossed the little bit by 506 tonnes per month in September. So we are progressing towards meeting our said. So by the end of the year we want to reach the 700, 800 target. So we are in process. Having said that, in the current quarter, it says the demand has gone down so we have produced less but that is on account of demand going down not clearly our capability. Second, the 20 crore CAPEX that I'm talking about is a part of, so earlier also I have mentioned we are doing some process changes in order to reach to that 800, 900 tonnes per month. So, it is a part of that process. Coming to OAP, we were at a yield of 90% to 95% purity now we have touched 99, we still need to go to 99.5 but we are looking, but it's looking positive. So by the end of this year that should also ideally come online. Third was the pharma intermediate. Like I earlier have mentioned it's a multipurpose plant there are about 12 products that will get manufactured, out of that we will take phase wise so first four, five products are now set. So we've also got revenues from for pharma –12:09 project in this quarter and good amount, growing but good amount. So, it should stabilize by the end of the year so all 8, 10 products will come online from Q1 next year.

Rohith Potti:

Okay. So across the chemistry what is the utilization right now?

Mihir Shah: Across the chemistry utilization is still low. We are somewhere around 55% to 60% for the quarter.

Rohith Potti: Each chemistry is it?

Mihir Shah: So you PCP is significantly down. So, Sarigam which is chlorination we are at somewhere around 50%, 55% while the others are still at a higher percentage. So ammonolysis is somewhere around 80%, PAP is around 50% and hydrogenation apart from PAP is around 60%.

Rohith Potti: Understood. So, last question for now, I'm just curious to know, if I see the PAP, so India was predominantly a importer but now we have a lot of plants right from granules. So our plant is up Granules so it's coming up, Sadhana trying to scale up and their technology they claim it to be a better technology. And suddenly we are going from probably a import dependent if I see all the capacities coming up including Panoli as well. We are looking at probably exporting from our country. So does that, I believe in including the new CAPEX that we are putting of 20 odd crore, we spend around 250 crores in PAT project and in the past we talked about maybe expanding a Paracetamol product as well. So does it ruin the economics what usually exists in the past with all this new capacity coming in. I don't think the Chinese capacity shutdown was beyond 40,000, 50,000, took you to 150,000 to 110,000 is what I believe it happened. So could you speak about the economics of PAP under this new condition to the lower pricing and the new capacity coming up?

Mihir Shah: Sure. So you're right the margins earlier when the markets, the Chinese company shut down. So definitely it became very attractive in India and the margins were significantly improved. But having said that, we still have a lot of imports, so even with us coming in and other competitors also coming in, there will be more than enough room for everyone. As far as exports are concerned. Yes, it is a horizon but most of our PAP is going to go to a subsidiary company so out of the 800, 850 tonnes that we will produce a month at least 700, 750 is going to go to a Valiant laboratories. So as far as we are concerned, unit dynamics won't impact as much because the pickup of our production is already there. For the balance, we have to search the market. Yes, and we are already in the process of doing so. So margin have squeezed, now that all of them are coming margins are definitely lower than what it used to be. But, it's still what it used to be say around four, five years ago historically, how it used to be historically that is where it is. So we did see a gold rush in between and now it's going back to normal. So as such, that is not a problem as far as the

demand is concerned. Coming to your other question of, I'm sorry about the CAPEX of the 20 crores that you were asking about. We will have to do that, it is not really to expand a product, it is really to bring all our processes in line and achieve the quality on a stable basis. So we will have to get those changes done. So that is there. Yes, it's on 250 It will probably go to around 270 crores of project but, once we achieve that scale it will good dynamics or a good economy of scale that we will get.

Rohith Potti: Just curious, with the 270 crore CAPEX on PAP on the current margin, whatever we have right post the squeezing and everything. What would be the payback period that we are expecting from that 270 crore is it 357 what would that be?

Mihir Shah: So earlier we were looking at around three year payback. I don't have the calculation exactly with me, but we were looking at but the prices have come down which I need to account it and probably the rework on the payback period, and some prices are quite erratic. So it is difficult to figure out where our payback is going to be at this moment. And other problem is that, it will largely depend on when we achieve our full capacity utilization. It is because our fixed costs are higher. So once we do that probably then getting to a payback period calculation will make more sense. Right now it will be all in an assumption basis.

Rohith Potti: Understood, fair enough. So hopefully by the end of the year we will get this clarity that will be helpful.

Mihir Shah: We are waiting for the prices to really stabilize. It's almost a 15%, 18% drop from previous quarter to this quarter.

Rohith Potti: Understood. And one last question, what is the plan with the Valiant laboratory we hold roughly 33% there?

Mihir Shah: Yes, we hold that much.

Rohith Potti: So what is the plan there, we are not consolidating it's a separately listed entity. So do we plan to monetize it or give it to the shareholders is there any plan there?

Mihir Shah: No, we haven't got that yet. So for now, it will stay as it is, no plan to exit to any of that.

Moderator: Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: My first question, our stake in Valiant is around 35%. So why are we consolidating it, why are we showing it as a separate line item?

Mihir Shah: So it became 35% only now on 6th of October once it got public. So before that we were at around 46%.

Aditya: Going forward, we won't be consolidating it?

Mihir Shah: Yes, it wouldn't be a line-by-line consolidation from next quarter.

Aditya: Got it. And sir one question, why are the gross margins come down Q-o-Q. So are there any inventory losses?

Mihir Shah: In fact, Q-o-Q gross margin hasn't come down, it is more or less stable at around 35%.

Aditya: Yes, so if the prices have decreased, so why would the gross margin.

Mihir Shah: See we have volume growth also come in due to pharma intermediate, due to PAP volume increase, so that has increased, raw materials have also stabilized. So that way gross margins have not moved significantly.

Aditya: Okay. And how does the pricing work with our customers?

Mihir Shah: Sorry, I didn't follow?

Aditya: How does the pricing work with our customers?

Mihir Shah: So we have about 60% or sort which are quarterly contracts with the customer, and then balances monthly and support, probably at an equal level.

Aditya: So, sir when I leave one to two years back and the raw material prices were increasing, we were getting hit because our contracts, we were having quarterly contracts and we weren't able to pass on the increases immediately. Now, when the raw material prices are decreasing, shouldn't we get the benefit of this?

Mihir Shah: We should ideally, but the demand and the price, that is with an assumption that the prices will remain constant. The finished product, so if it's a declining

market, where the buyer is at a powerful end with strong negotiating power, so we have to kind of compromise into our margins in order to remain competitive in the market.

Aditya: Okay, understood. And sir one question was on chlorination, our volumes are still very low in the chlorination segment. Around 4000 per quarter, now we are doing 2000 so, are we losing market share in this segment?

Mihir Shah: No, we are not losing market share, it is simply no demand.

Aditya: But a 50% drop, because I believe chlorination is mainly going for agrochemicals segment?

Mihir Shah: Yes, agro chemicals, sorry I heard something else.

Aditya: Yes, and if we look at the commentary of domestic agro players, we are reporting pretty flat volume growth, but they are getting hit by lower realization. But in our case, they are getting hit by both lower volumes and lower realization. So, if you could just comment what's happening in the segment?

Arvind Chheda: It was basically the exports were more in the Chlorophenol than the local market and because of this, Russia and Ukraine war, this European markets are in the problem, if you see the visuals of the land fair and BSF they all dropped by around 50%. So the demand in the export market has decreased like anything. So that has hit the volumes of Chlorophenol.

Aditya: Okay. And does there any, the fire incident which happened last year was there any impact because of it, did we lose any market share or something like that?

Arvind Chheda: No. Customers are still there, but the demand is not there, because of the agro molecule what they were manufacturing, is a problem. So, next year also if there may be some demand from Jan onwards we see, but not for the earlier levels I tell you.

Aditya: Got it. And sir how much of our sale is to Arti Group and purchases also from Arti Group company?

Mihir Shah: So, sales come to about 20% approximately, and purchase is a little higher than 50%.

Aditya: Okay. And that 20% majorly will be to Valiant Labs?

Mihir Shah: No, when I say Arti I meant Arti industries alone with Valiant Labs, it's almost 85% of our PAP goes to them. So if you put that in the mixture of within the group sales, then it will be somewhere around 40%, 45%.

Aditya: Okay. And sir our other expenses do not seem to decrease at all, because they have constantly been around 30, 35 crores even when the volumes have decreased. So what proportion of our other expenses is the major?

Mihir Shah: What proportion I think, I don't have that answer ready, sorry. But let me just think I will have to get back to you. What proportion is fixed, I'll have to get back to you. Otherwise, overall it's not decreasing is because like you rightly said most of them would be fixed in nature except for the power and steam. Most of them would be fixed in nature, for example, insurance, then the other components which maybe, if you reach out to me separately, I'll probably be able to give you once I workout.

Moderator: Thank you. The next question is from the line of Shikhar Mundra from Vivog Commercial Limited. Please go ahead.

Shikhar Mundra: Wanted to understand how is the situation on ground now like, are we seeing any rebound in prices or is the outlook slightly better for H2?

Mihir Shah: No, in fact, it's slightly poorer than the previous quarter.

Shikhar Mundra: Okay. We had actually guided for like 800 crore standalone revenues and 12% margins in the last concall if I'm not wrong. So are we changing that guidance, are we revising it downwards?

Mihir Shah: To an extent, yes because we were hoping a revival in Q3, but at around mid of November, we don't see that revival. So keeping that in mind, we will be a little, maybe somewhere around 800 still, but not on the higher side probably towards the lower side of 800. So that is where we will be margin. Yes, if Q3 remains poorer than Q2, then margins will definitely get impacted significantly. But, I will not be able to comment on this margin because it's too uncertain. I don't want to say a number and then not live up to it.

Shikhar Mundra: Right. Out of all the chemistries like, which is the chemistry you would say, is seeing some green shoots or is slightly less affected than the others or it's all three are equally?

Mihir Shah: As far as price corrections are concerned, it's across all chemistries. In the margin, chlorination is usually the best one, but because of low demand that has been significantly hit. What has not moved, actually none we saw some revival in our ammonolysis chemistry. But again, given the current situation where we are in the current quarter, those volumes have also kind of again come down. So, all of these products are more or less impacted in some way or the other, price or volume.

Moderator: Thank you. The next question is from the line of Manan Patel an Individual Investor. Please go ahead.

Manan Patel: Sir, just wanted to understand this is my first call. So, I wanted to understand your expectations of what changes in the market might happen for us. Like for example, you said chlorination utilization is around 50%, 55%. So what changes in the market should happen for us to increase this utilization to let's say 80%, 90%. So, what should pick up in terms of macro, or other factors that you think for us to improve the utilization in chlorination?

Mihir Shah: So, mainly the demand needs to improve and most of our customers end user base is Europe. So, Europe market needs to stabilize for our direct and indirect exports to improve, which is majorly 50% of our chlorination. So, once that improved, the chlorination will be back on track. As far as we are seeing what the trends are right now. This financial year will end up being on the lower end, we are hoping some revival will come in FY25.

Manan Patel: And sir this demand is affected I understand one because of poor, but do you see the inventories are also still there in the system and low inventory still have to come down, is that the case?

Mihir Shah: Yes, so partially yes, inventories are there in the system. So that also has to come down but at the same time, it's also the demand in the Europe end, so they have also reduced to half it's not that they are holding up inventory. Their projection itself has gone to half for the year.

Manan Patel: And sir in terms of supply, so like we have increased our supply substantially. So do you see the supply increasing in the system or decreasing what is your comment on the supply, across?

Mihir Shah: Our supplies have increased because our volumes have increased, my volume growth from previous quarter to this quarter was about 22%. So it is directly on account of that.

Manan Patel: No, sir I am talking in terms of the supply for chlorination across the industry. So like we have increased the capacity has the industry also increased the capacities or has decreased?

Mihir Shah: So we haven't increased capacity in chlorination, chlorination overall the product that we are in it's a very stable market, so not much of that kind of expansion comes in. It's Valiant Organics in India and a couple of four or five companies in China together to cater to the entire demand. So, nobody within the Chlorophenols that we produce has increased capacity.

Manan Patel: Okay. And in terms of hydrogenation?

Mihir Shah: Hydrogenation is in our very wide terminology. So we have almost 20 products under hydrogenation. So each one actually needs to be considered separately in terms of expansion or competition.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Sir, I wanted to ask about the agri segment again, so among all the chemicals that we have the so Para Chlorophenol is the largest, is that right?

Mihir Shah: Sorry, I lost you in between Para Chlorophenol and?

Rohith Potti: No, is that the largest product in this segment?

Mihir Shah: In chlorination, yes.

Rohith Potti: Yes, perfect. And we mentioned in the past that we are planning to add two, three more molecules in Chlorophenol so how is that coming along?

Mihir Shah: So, we have started with one of the molecules, it is just very early to really state about it, but another couple of weeks and we will be producing that to a good sizable volume and the other one is still being worked upon.

Rohith Potti: So, will this contribute majorly to volume or no, It's still a niche molecule?

Mihir Shah: It's a niche molecule, it will improve our profitability, but on the top line it may not significantly has like on the entirety it may not have a significant impact, but it will definitely help increase, it is a margin accretive.

Rohith Potti: Understood. And sort of calling up on the previous participant question. So, I believe we have increased our capacity in chlorination from 4500 to 18,000 which was done in 2020 probably.

Mihir Shah: Yes, over last four, five years.

Rohith Potti: So in that context, did anybody else, so were we the last one to increase capacity in our space or did anybody else increase post that?

Mihir Shah: So, in India it basically just Valiant Organics so there's no direct competition for these products in India. When we increase our production, it was mainly on the line side due do environmental issues and some other technicalities, the companies in China shut off so because of that, we increased ours and we took the market share. Some of them have reopened but they moved to Mongolia where they become un-operational for three, four, five months of the years so overall in fact there's been a volume drop but not an increase. Arvind, is that correct?

Arvind Chheda: The demand has gone down; we were expecting the demand will grow but because of the Europe problem the demand has just slump in last two years.

Rohith Potti: No, fair enough sir. But capacity wise other than us nobody has expanded over the last four, five years right?

Mihir Shah: No.

Arvind Chheda: No, they have not expanded they have just moved from China to Mongolia because of some problems, but in Mongolia in winter they have minus 30 degrees temperature so they cannot run the plant for two to three months.

Rohith Potti: Understood. And one question, am I write in saying that Chlorine being a toxic and being an important ingredient getting access to the gas also, it might not be as economical to produce in Mongolia even if they shift there, our profit margins have benefited because of our location and have access to the raw materials available in Gujarat itself is that right to think that way?

Arvind Chheda: Chlorine price may not impact much because here we get almost at Rs.1 per kg.

Rohith Potti: No, I am saying the Chinese players will not be as competitive because of our advantage being in Gujarat and getting the.

Arvind Chheda: Yes, but chlorine prices may not be much impacted on the pricing that is there in China also or Mongolia also.

Rohith Potti: Okay, understood so that was helpful. And is there any particular crop or something that needs to come back up or if Para Chlorophenol, a uniform agro chem product that any agricultural revival in Europe will help us, is that question makes sense?

Arvind Chheda: Demand should come basically.

Mihir Shah: Just to add on to that, we do not, we are B2B. So we exactly do not know where the end use is. So our customers do not disclose where the end use it so, we won't really be able to correlate which crop needs to come back.

Rohith Potti: Okay. So, you don't know if it is used for any particular pest or any particular, you don't know what the exact thing is.

Mihir Shah: Yes.

Arvind Chheda: They will not reveal also.

Rohith Potti: Okay. And the dyes chemical at 80% utilization have we shift our old margins?

Mihir Shah: Sorry, dyes what?

Rohith Potti: We hit 80% utilization this quarter you said. So has the margins also reverted back to our growth margins of....

Mihir Shah: For the quarter yes. But in the current quarter, it is again on a downward trend. So it was probably just a one time in between peak and then it's come down again.

Moderator: Thank you. The next question is from the line of Akshada Deo from Vivog Commercial Limited. Please go ahead.

Akshada Deo: Just wanted to know, can you tell me more about the companies and why they shut down in China and what was the volume they were producing before they shut off?

Arvind Chheda: Generally they are around 800 to 1000 tonnes capacity each plant.

Akshada Deo: Okay. And do you know the total market what Chinese companies were producing?

Arvind Chheda: Global market is around 5000 to 6000 tonnes.

Akshada Deo: Okay. And this was how much of this was being catered by China?

Arvind Chheda: So we make around say 1200 maximum, on average before the balance is China.

Akshada Deo: Okay. And what happened sir, why are the company shut down?

Arvind Chheda: Because of the environmental problems they have, but now they are all in line, there is no problem at all.

Akshada Deo: Okay. So this capacity is also supposed to come back into the market along with the Indian capacities that are started?

Arvind Chheda: That's the latest report what we get, two to three companies have closed down again, because of economics. Not sure 100%, but this is the market report what we are getting.

Mihir Shah: Sir just to add to that, the company shut down and return that was a couple of years ago. And these companies that Arvind is saying right now, that shutdown is because of the current market scenario being so low that two, three companies couldn't manage to operate.

Moderator: Thank you. The next question is from the line of Shikhar Mundra from Vivog Commercial Limited. Please go ahead.

Shikhar Mundra: Just wanted to understand for our products, for example chlorination chemistry, what is our scale of operations compared to our competitors?

Mihir Shah: As in our market share, you mean?

Shikhar Mundra: Yes, our size.

Mihir Shah: So, like I said in the domestic market we have 100% market share, there are no other competitors.

Shikhar Mundra: Compared to the Chinese number?

Mihir Shah: In the Chinese, Arvind just mentioned around.

Arvind Chheda: Now almost three must be there out of six.

Mihir Shah: He is trying to get to if we are making.

Arvind Chheda: So, from 6000 to 3000.

Mihir Shah: So, demand has also fallen.

Shikhar Mundra: I mean to say, our capacities compared to the Chinese capacity, the Chinese players capacity.

Arvind Chheda: Their capacity is around maximum 1000 to 1200 maximum what we get the market news, our capacity is 1800. But maximum we can operate at 1500 to 1600 per month.

Shikhar Mundra: So our cost of production is definitely not more than their cost of production?

Arvind Chheda: No, never. We can easily compete Chinese there is no problem at all.

Shikhar Mundra: Okay, so all right. And that's true for the other two chemistries also as well right, except Chlorination?

Mihir Shah: No, not necessary. So for example PAP they have good enough of manufacturing and good enough of capacities there so we compete, we are at the same price level as them in the domestic market. We are not lower

Shikhar Mundra: Alright, got it. So, in this scenario even the Chinese players are facing the same difficulties as us?

Arvind Chheda: Yes, they are also facing the same. They have to make distressed selling then.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: I have a couple more questions anyway. So on dyes and pigments. So we are one of the largest manufacturer, if not the largest in Para Nitro Aniline and I believe till October 2022, we had anti-dumping duty benefit, at least on the government website, I couldn't find anything beyond 22. So, are we competitive as compared to the Chinese players there and how are the economics, is dumping duty still exists and how is the economics right now?

Mihir Shah: No, I don't think there's an anti-dumping on PNA, but we are definitely competitive, there is no problems. In fact, with us there are other three, four competitors who are in the domestic market also, apart from the Chinese, so it's all at equal pricing with China. So there's no anti-dumping as such right now.

Rohith Potti: Okay, understood. But in this, like in chlorination are we competitive our margins on average are good, despite us competing head-on with China?

Mihir Shah: Yes, it is good.

Rohith Potti: So, it is more competitive than PAT?

Mihir Shah: It used to be, given the current market dynamics, it is under stress, but on a normal basis or a standardized basis it is good.

Arvind Chheda: Since our capacity utilized also 75% to 80% makes it more profitable.

Rohith Potti: Fair enough sir, I'm just asking that as compared to PAT when we compete against China. This is something which we are very competitive against Chinese is it a right way to think about it?

Mihir Shah: Yes.

Rohith Potti: Understood sir. And in Chlorination in general I am curious to know why is it that only India one player and China three, four players exists in the space, why can more players not come in this space, is there any particular barriers to entry there?

Arvind Chheda: No, the applications are very limited and demand growth is not there, it's constant to 5000 to 6000 per month, and it is not increasing so if any additional capacity comes it's not viable for the new player to compete in Chlorophenol's.

Rohith Potti: Understood. And how many suppliers of PNC are there in the country, is there anybody from Arti industry?

Mihir Shah: I think there are, I don't know much but Arti is definitely the most prominent one.

Moderator: Thank you. The next question is from the line of Jagdish Sharma, an Individual Investor. Please go ahead.

Jagdish Sharma: I have two questions. The first is like what will be the top line of OAP when it comes to online and what will be the capacity utilization since you're looking into for FY25?

Mihir Shah: So OAP again, the last I checked the prices are connecting so the top line will definitely keep changing but approximately somewhere around 30 crores is what I last analyzed, the data would work out at 100 tonnes per month production.

Jagdish Sharma: Okay, so 100 tonnes per month and 30 crore will be the major top line you are saying right?

Mihir Shah: Down 30 crores but this was sometime back the prices may be different right now, which I'm not aware of.

Jagdish Sharma: Okay. Second, I have an hypothetical question. So when the first participant who asked for buyback, I have another, I have opposite question, I have opposite view when the market is down and there is no big advantage for us, right now is the correct time to do a big kind of CAPEX, like why we are not into that, why your CAPEX is little bit down this year?

Mihir Shah: So just let me reframe because your voice was a little unclear. You're saying that when the markets are down and the year is also low, why are we doing the CAPEX that we're doing?

Jagdish Sharma: No, I am asking why are we not increasing in because, we know that in the coming times, we will have much more advantage over our competitors when we have a capacity of large elephants we can do so why we are not into that.

Mihir Shah: Right now, all our plants are operating at 50% capacity, by expansion we are only going to be underutilized even further. That is one side of it. The second is that, we've already done expansion in last three, four years. So again, redoing right now would not be ideal. We want to stabilize our three projects that we have taken at hand and still bringing it up to the mark that you want to achieve. So we're focusing more on that.

Jagdish Sharma: Okay. And final question from my side is like, what kind of revenue can we expect from AP when it is fully utilized and what will be our margins on that front, if it is fully utilized from the current 50%?

Mihir Shah: So, margin unfortunately, I will not be able to disclose but as far as top line is concerned, see point is that the prices are correcting very fast. So, I don't know whether I should take it at Rs.300, Rs.250 or lower. I'm not too sure. But you can do the math, we are 1000 tonnes capacity if the optimum capacity utilization is 80%, 85% so basically 800, 850 tonnes per month, and then whatever pricing that you may want to consider it, that would be the top line.

Jagdish Sharma: So just a final question on this, I am continuing the current question, so what is the PAT price which has varied from in the last few years like, what is the lowest price and what is the highest price?

Mihir Shah: So, lowest is somewhere around 250 In the recent times, and the highest it has also touched around 680 or so if I'm not wrong.

Jagdish Sharma: And what you will make out of it, if it is highest, 680 what you will make out of it?

Mihir Shah: Sorry, can you come again?

Jagdish Sharma: So if it is 680 or 650 and what will you get for selling, what is your margin there?

Mihir Shah: I will not be able to disclose the margin I'm sorry, but that 650 or 680 was when the Chinese companies had a shutdown in China and the inputs were not there. So that is the time when PNC, the key raw material went up from China and hence PAP went up. And this was also along with the COVID search on Paracetamol. So that is why, all these two, three reasons put together was at the maximum end. But historically, the prices of PAP has been around what it is right now, which is around 215.

Moderator: Thank you. The next question is from the line of Manan Patel, an Individual Investor. Please go ahead.

Manan Patel: Sir when you mentioned that two, three companies from China might have closed down. So, I wanted to ask how difficult is it to start and stop the plant, is it like a long process or it can be done easier, like quickly?

Arvind Chheda: Depends on whether they are going for some other molecules or they come back in this Chlorophenol, it depends on the company's management methods. But it is not a problem to come back also.

Manan Patel: Understood, okay. And sir given the current situation, it feels like even though we have diversified over the last four or five years, it feels like everything has gone down in tandem, for us to give this kind of performance. So do you think over the next three to five years, we'll be able to sort of be get into products, which are not correlated with each other in the sense that if some product is not doing well, other products might keep on doing well, right now, it feels like all the products have gone down. So, what would be your view of the company three to five years out and the industry as well?

Mihir Shah: See, in the current situation, yes they seem to have gone down in tandem, but that is because of, macro reasons and the war in an entire region going down. Otherwise, there were times when dyes and pigments were down but agro was doing great without any issue. And so these are not really interlinked chemistries, but for one reason or the other at this moment all the chemistries are down, but it has never happened in the past.

Manan Patel: Okay. And sir when you say the chlorination demand in Europe has gone down. So are there other markets that we can approach or like, 50% of Chlorination comes from the domestic, so domestic market has also been impacted or there can be other market locally?

Arvind Chheda: Local is also impacted.

Mihir Shah: And we are in other regions, we do sell to China, we do sell to Japan. So there are but, our domestic customers being more dependent on Europe, so it's more indirect.

Manan Patel: Understood. And sir, do you think three to five years out, we will be able to sort of your reading of macro scenario can be much better than what it is right now in terms of different chemistries. So can you give your views on how can macro pan out over next three to five years?

Mihir Shah: Yes, definitely we do not see this being a long term issue. It is definitely in the next three to five years is quite a large horizon. We believe that in next one, two years itself, this should turn around, and we should be back to our earlier performance.

Moderator: Thank you. The next question is from the line of Akshada Deo from Vivog Commercial Limited. Please go ahead.

Akshada Deo: In your opening remarks, you mentioned you're seeing reversal for the pigment sector, can you throw more light on the same, because demand volume high, how are you seeing reversal?

Mihir Shah: So, it was more from sales volume that increased in the ammonolysis, so basically ammonolysis is that dyes and pigments chemistry. So we saw volume pick up in the Q2 numbers. But we also simultaneously mentioned just little time back that given the current scenario is that it is again seeing a downward trend. So although Q2 dyes and pigments looks very promising, but our current scenario seems to be weak again.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over the management for the closing comments.

Mihir Shah: Thank you, everyone. I hope we were able to answer your questions positively. If there are any queries, if we wish to reach out to the management, please reach out to our IR advisors Valorem and they will be able to help you ahead. Thank you so much. Happy Diwali.

Moderator: Thank you members of the management team. Ladies and gentlemen with that, we conclude today's conference. We thank you for joining us and you may now disconnect your lines.