



100 Years of Sulphur Chemistry

Sec.25/2019/150

18th November, 2019

To,
Listing / Compliance Department,
BSE Limited,
Phiroze Jeejibhoy Towers,
Dalal Street,
Mumbai 400 001

SCRIP CODE : 506405

Dear Sir / Madam,

Ref.: Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

This has reference to the Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Kindly note that Shri Bimal Lalitsingh Goculdas – Managing Director, & Chief Executive Officer of the Company, Shri Dilip Trimbak Gokhale – Sr. Executive Vice President & Company Secretary of the Company and Shri Chirag J. Shah, Chief Finance Officer of the Company had a meeting with below mentioned Analysts' on Thursday, 14th November, 2019 :

Participants List

Sr.No.	Name of the Institutions	Name of the Analyst
1.	Alpha Asset Management	Manoj Agarwal
2.	NS Advisors	R Narayan
3.	IIFL	Abhijeet Akella
4.	Lucky Investments	Anupam Agarwal
5.	Deep Financial	Ravi Mehta
6.	Individual Investor	Sumit Paul
7.	Vridhhi Capital	Rajat Sethiya
8.	India SME	Ashok Patel

The Transcript of the conference call held with Analysts on Thursday the 14th November, 2019 can be viewed on the below weblink :

<http://www.dmcc.com/investorinformation/announcements>

Kindly take the same on record.

Thanking you,

Yours faithfully,
For The Dharamsi Morarji Chemical Co. Ltd.,


(B. I. Gokhale)

Sr. Executive Vice President & Company Secretary

CIN NUMBER: L24110MH1919PLC000564

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“Dharamsi Morarji Chemical Company Limited Q2 Post Earnings Conference Call”

November 14, 2019



**MANAGEMENT: MR. BIMAL GOCULDAS – MD & CEO
MR. D.T. GOKHALE – SENIOR EXECUTIVE VICE
PRESIDENT & COMPANY SECRETARY
MR. CHIRAG SHAH – CFO**

**MODERATOR: MR. DHIRAL SHAH – PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**



Moderator: Ladies and gentlemen good day and welcome to Dharamsi Morarji Chemical Company Limited Q2 Post-Earnings Conference Call. 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 presentation concludes. Should you need assistance during the conference call, please signal for 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. Dhiral Shah from PhillipCapital. Thank you and over to you.

Dhiral Shah: Good afternoon to all the participants. Thank you very much for joining on this conference call for Dharamsi Morarji Chemicals Company Limited. We would like to extend our thanks and gratitude to the management for letting us organize this call. From the management we have Mr. Bimal Goculdas, who is the M.D. and CEO, Mr. Chirag Shah, who is the CFO and Mr. D.T. Gokhale, who is the Senior Executive Vice President and the Company Secretary. I would like to handover the floor now to the management for the opening remarks followed by Q&A session after that. Thank you and over to you sir.

Bimal Goculdas: Thank you. This is Bimal Goculdas and welcome to all people on this conference call. I would also like to thank PhillipCapital for organizing this.

To review the results for the quarter and a half year so far, you would’ve probably seen the results; the top line is down by about 11 crores in this quarter and the bottom line is also down in profit before tax from 9,37,00000 to 5,51,00000. This is due to a combination of reasons. First of all last year was an exceptional year wherein the first half particularly we had very good finished product prices and very low raw material prices. And as mentioned in the last call last year that it should not be used as a benchmark or extrapolated.

Further apart from that there have been other events. One is we have seen a global slowdown. This is across industries and across the globe. In India we are seeing the impact on the automobile industry but it’s not restricted to just India and not restricted to just the automobile industry. And across sectors we have seen companies de-stocking as well as reducing their output. In many cases it’s because their own customers are not lifting material at the same rate as we were earlier. So we are also affected by this. The other reason for the top line being low is that commodity prices including our raw material are lower than they were last year. So in a pass-through business we have to pass on the difference to the customers as well.

If you look at the percentage margin, it’s not significantly different at the gross level and that’s a good benchmark for us as well. We have had other expenditures which I can come to after when you have your questions I am sure and we will try to address any queries that you may have. I would like to open for questions.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Manoj Agarwal from Alpha Asset Management.

- Manoj Agarwal:** My first question is on the depreciation which I see on a YOY basis and even on a quarter-on-quarter basis has gone up and looking at the balance sheet I see some further capital work in progress showing there as well. So when can we expect to see the revenue growth flowing from this ongoing CAPEX and if you could just throw some color on the planned CAPEX both for this year and next year on both the Roha and the Dahej factory.
- Bimal Goculdas:** I will address this Manoj, so yes we have invested in multipurpose plant at the Dahej site. We have also invested in revamping the system to have a Benzene Sulfonyl Chloride plant at Dahej in addition to the one at Roha. We hope to see revenues from both these, in fact the multipurpose plant and Benzene Sulfonyl Chloride plant will see revenues this quarter onwards.
- Manoj Agarwal:** How much have you invested on across these sites and what sort of asset turn at full capacity can be expected?
- Bimal Goculdas:** So typically we expect the investment book could be around 10 crores at the moment and we expect to have between 2.5 to 3 times in terms of revenue. Of course that does depend on at what base level the prices of raw materials are taken but in general about 2.5 to 3 times. Another question you had asked earlier was what is our plan, so we have plans to build further multipurpose plants. We also plan to build a Sulphuric Acid plant at Dahej and we plan to build a dedicated plant for our Sulfone business at Dahej also and the total investment we are envisaging over the next couple of years is about 100 crores.
- Manoj Agarwal:** So there was the 50 crores CAPEX that was awaiting for financial closure last year as per the con-call, so where are we with that? So 100 crores is what we say now, is that spread over 2 years, 3 years, any sort of timeline?
- Bimal Goculdas:** Yes, couple of years. I already mentioned that and we have tied up the finances.
- Manoj Agarwal:** And all the environment clearance and everything else you already have?
- Bimal Goculdas:** Yes.
- Manoj Agarwal:** So there is no expected a known delay factor that could come in? Of course rains and those types of things can come in at any time but other than those it should be a fairly smooth sailing as far as the putting the facilities on the ground?
- Bimal Goculdas:** That's correct. In fact we have delayed it because we were evaluating market conditions more than anything else since there are some new Sulphuric Acid plants coming up at Dahej as well. But we believe that there is enough capacity to absorb the extra production.
- Moderator:** Next question is from the line of R Narayan from NS Advisors.

R Narayan: Just wanted to understand the overall business prospects for the company, could you also highlight particularly the desulphurization rules which are going to take place in 2020 how would that benefit us from a business point of view?

Bimal Goculdas: Two parts of your question; one is the overall business scenario. As I mentioned already, globally there is a slowdown across sectors and across geographies and DMCC will not be immune to that for example when you have the car sales dropped by 50%; car made up of rubber, plastics, paints, steel and we supply to all these sectors, so certainly we will see a slowdown as well. But we believe that it's not going to be a long-term slowdown. There are already some signs of revival in some of the sectors. We expect that going forward with a 3 to 5 years horizon things will be back to normal.

The second part of your question was about the Sulphur and you are right that the BS6 norms which have come into effect now will affect the availability of Sulphur. In fact availability of Sulphur will increase in India because of these new norms as they had to remove Sulphur from the fuel and that should lead to increased availability and therefore lower prices or at least reduced imports.

R Narayan: Would it be just possible for you to give a brief percentage of the end markets that we are catering to? Like you just said Auto is one of the key sectors, how much do we cater to the Auto sector, how much to the FMCG and so on?

Bimal Goculdas: We don't cater directly to Auto sector but we do cater to steel, we do cater to paints, we do cater to the pigments, we do cater to lot of segments. No single segment is more than about 8% to 10% of our sales and we have a wide range. If you look at our website you will see the range of sectors we supply to.

R Narayan: Is the Dahej plant expansion on track? Could you update what sort of value addition and the products that we can expect and to which industries they would cater to and any new contracts that you would have got for that?

Bimal Goculdas: Specifically we won't discuss contracts but as I mentioned we are investing in the Dahej plant because it's very close to our customers as well as close to suppliers for the domestic market and that's where most of the investment over the next couple of years will go. So we expect that site which has turnover of 50-60 crores to at least increase to about 200 crores once the investment is complete and we see a ramping up of production.

R Narayan: What sort of an R&D investment that we can expect?

Bimal Goculdas: We are investing in R&D in terms of equipment and in terms of people. Every year we do couple of crores but we will be increasing that.

- R Narayan:** Last book keeping question; in terms of the CAPEX for the next 2 years what would be the quantum and how are we expected to spread it?
- Bimal Goculdas:** I think I have already covered that; total investment over the next 2 of years was 100 crores and partly funded by debt and partly funded by internal accruals.
- R Narayan:** Anything fixed amount of debt that you have in mind that we will be taking about 50, 60 how much would that be?
- Bimal Goculdas:** It will be about 60% to 70%.
- Moderator:** Next question is from the line of Manoj Agarwal from Alpha Asset Management.
- Manoj Agarwal:** This 100 crores incremental CAPEX that you mentioned, is it fair to assume that 250 to 300 crores incremental revenues will be flowing towards the fag end of FY22 or will it be later?
- Bimal Goculdas:** It would be later than that because the investment will be complete in the next couple of years which will take us into 20-21 September or so. So it's only after that when you can ramp up and utilize capacity. Besides the 2.5 X is what I told you for the multipurpose plants and would not apply to the Sulfuric Acid business.
- Manoj Agarwal:** So the Sulfuric Acid is mainly for internal consumption—of course if you have got surplus availability and the prices in the markets are good you are free to sell them—but I think primarily you need it for your internal consumption, right?
- Bimal Goculdas:** There are two parts to it. One part is the Sulfuric Acid itself and one part is the downstream products including Chloro Sulphonic Acid, Oleum, liquid Sulphur Trioxide. So the downstream products are largely for internal consumption but the Sulfuric Acid is largely for sale.
- Manoj Agarwal:** In your previous call you also mentioned that you also cater to the Pharma and the Agro-chemical industry in terms of the intermediates that are required. So we keep hearing that if the still the China situation is uncertain and some of the customers have de-risked their sourcing and strategy, so they now source from multiple locations and India is definitely on their radar now. So in terms of specifically to the Agro-chemical and the Pharmaceuticals intermediates what aspect do you see because some of the other conference calls that we have attended and the customers and the companies have clearly stated that the demand from these two sectors is on the rise?
- Bimal Goculdas:** In case of China, they have clamped down on their environment and on their safety front. So certain entire industrial estates have been closed down and asked to relocate. But the process of relocation is on, some companies have restarted, and we believe that the absence of China if at all, an impact will be a short-term impact. The Chinese will come back possibly at a higher cost level but we don't expect in the long-term for them to be out of business. In case of DMCC we

have not had any direct benefit of Chinese absence from the market but indirectly we have because some of our customers had that advantage. In general though, people across the world or customers across the world are looking for an alternative to China and India is the only viable alternative. So this is really what gives a sense of optimism that even if the overall market does not grow that well the Chemical industry should do well in India.

Manoj Agarwal: Anything on that the Pharma intermediates or the Agro intermediate? I know you have R&D plants, is there something in the works for those two pockets especially?

Bimal Goculdas: We are working on those areas; we do have some products which go into those segments. We are not looking at particularly those segments but we are looking at import substitutes or other opportunities where we can benefit not just by the absence of China but based on our own R&D maybe improve on some existing products in the market.

Moderator: The next question is from the line of Abhijeet Akella from IIFL.

Abhijeet Akella: Just with regard to the updated CAPEX plan; few months back we were cautious on the outlook in view of the new capacity additions coming up in Sulfuric Acid. Now of course there's been this economic slowdown in between for the last few quarters. So in the midst of that how come we get this belief that the demand is actually going to increase to absorb the new capacities coming up?

Bimal Goculdas: The thing is that we have evaluated the markets going forward and we don't believe that this is going to be a permanent slowdown or anything like that. As I mentioned the Indian Chemical industry is well placed as an alternative to China. Apart from India there is no other viable alternative, people do talk about Vietnam, Philippines, Malaysia but they don't have the scale or the depth. Particularly in Sulfuric Acid and in the downstream product that we are thinking of doing; we believe and after we have studied and after we have delayed the investment for commercial reasons we have come to this conclusion that yes, while it may not seem the best time to invest in Sulfuric Acid; the overall market will pick up over the course of time and remember this is a 15 month type of investment and we do have internal consumption as well. Besides we have several customers in and around Dahej who we could be the preferred supplier.

Abhijeet Akella: In terms of the CAPEX plan, you mentioned a few multipurpose plants that are coming up along with a dedicated plant for Sulfone in addition to the plant on Sulfuric Acid, is that correct?

Bimal Goculdas: Yes.

Abhijeet Akella: And multipurpose plants are those for new products that are coming out of R&D now or just an expansion of what we already produced?

Bimal Goculdas: Combination there, so we use multipurpose plants to commercialize new products as well as to produce the low volume products.

- Abhijeet Akella:** How much revenue visibility do we have for these new capacities, do we have commitments from customers for the volumes as they come up and therefore by when would you expect to be able to ramp up these volumes to full potential post commissioning?
- Bimal Goculdas:** I believe certainly we do have visibility on the market side. We don't have contracts with the customers for the entire output. But we believe that starting now in the next 4 years or so we will have utilize the capacity of these plants.
- Abhijeet Akella:** So basically September '21 is when the plants come up if I heard you correctly and then another 2 years thereafter to turn them up?
- Bimal Goculdas:** Yes.
- Abhijeet Akella:** This quarter's revenue decline, if you could just talk a little bit about which particular segments or products that we have driven by and how is the outlook for 3Q and 4Q now going forward?
- Bimal Goculdas:** We had couple of our customers in India who were shut down for practically the entire quarter. We had a couple of overseas customers who had cut back on their requirements and besides that we were also impacted by the compulsory BIS certification for Boric Acid which came in at the end of May and it took us few months to get our plant audited and covered under BIS Standards and that also made us lose revenue and profitability, so as I mentioned combination of lower demand along with lower pricing as well which affects the top-line as well as the Boric Acid situation. In terms of market we find that the domestic markets have improved, the overseas markets not yet and Boric Acid we have the certification and we are getting back to normal now.
- Moderator:** The next question is from the line of Anupam Agarwal from Lucky Investments.
- Anupam Agarwal:** My question pertains to like I can see the numbers, your H1 revenue declined for versus the last year is about 14%, is it possible for you to quantify what is the volume decline and the price decline?
- Bimal Goculdas:** I don't have that off-hand but as I mentioned Boric Acid we lost almost the entire quarter and we did also lose some of our overseas business. I would maybe come back to you separately on this.
- Anupam Agarwal:** On a full year, on a base of about 240-235 crores do we see a decline on our top-line or a flattish number, would we be able to compensate for the loss in the second half?
- Bimal Goculdas:** I don't think we may be able to make up the shortfall especially since there is a reduction in the prices as well which we have to pass through. But yes, we will have to take each quarter as it comes.

- Anupam Agarwal:** So these prices that have fallen are likely to sustain at this level or do you see that again picking up in some quarters seeing that?
- Bimal Goculdas:** No, it is not only the finished product prices; it's also the raw material prices. So it's a dynamic situation.
- Moderator:** The next question is from the line of Ravi Mehta from Deep Financial.
- Ravi Mehta:** If you can split the CAPEX details like you talked about some 100 crores CAPEX that you are planning to do; any split of how much you are going to spend on the Sulfuric Acid plant and what on the multipurpose plants or something like that?
- Bimal Goculdas:** About 50 crores is on the Sulfuric Acid plant and the remaining 50 crores is split between the multipurpose plants and the dedicated plants for the Sulfone.
- Ravi Mehta:** So when you talk of asset turns, it would be for the 50 crores for the multipurpose and the Sulfone plant?
- Bimal Goculdas:** Correct.
- Ravi Mehta:** The Sulfuric Acid would be around given that the prices are?
- Bimal Goculdas:** It fluctuates a lot but 1 to 1.5 times like that.
- Ravi Mehta:** I believe Sulfuric Acid we consume mostly internally and sell say a third of it?
- Bimal Goculdas:** You can say on a plant basis about 50% is consumed in-house. That includes the downstream products of Sulfuric Acid as well.
- Ravi Mehta:** This will continue even in this new project that you are planning?
- Bimal Goculdas:** Yes it will not immediately be consumed internally but over a period of time.
- Ravi Mehta:** So probably in the transitional phase we may see more of commodity sales till it gets ramped up and gets consumed inside?
- Bimal Goculdas:** Absolutely right.
- Moderator:** The next question is from the line of Sumit Paul, an Individual Investor.
- Sumit Paul:** I would just want to understand our inventories and receivable; we have good numbers there generally and while as on date we sell a lot of commodity products like Boron and Sulfuric Acid. So what is that helps us get these numbers, if you can please help to understand?

- Bimal Goculdas:** We are pretty tight on the working capital management. We have come from several years where we didn't have the luxury of large working capital, so it's sort of in our habit to closely follow this and it's one of the things we monitor very regularly. If we know that it's a customer with long credit requirement or anything we would introduce a distributor in between a trader in between and ensure that we get our money on time.
- Sumit Paul:** So we basically don't go for tendering process or something like that so only upfront money generally?
- Bimal Goculdas:** It's not only upfront but we have a tight control.
- Sumit Paul:** I would also want to understand, I have been reading that the Sulfuric Acid prices are low. Generally is it that the Sulfuric Acid prices are low which keeps down the raw material or is it vice versa, can you help me understand that?
- Bimal Goculdas:** No it's not always linked. Right now the Sulphur prices are also trending down and the Sulfuric Acid prices are trending down. Last year it was the reverse, the Sulfuric Acid prices were high and Sulphur prices were low at the beginning of the year. So this can change. For the Specialties business it's more like, it's much less fluctuation but in the Commodities business anything can happen.
- Sumit Paul:** Also I would want to understand the revenue split if you can help me. What part of the revenue can be split into a part which can remain more or less constant and the remaining part gets a multiplier like the case was there last year, when we got a multiplier effect because of the Sulfuric Acid. How can we have a rough breakup if you could help me?
- Bimal Goculdas:** Our Commodities business is about 30% to 40% of our top-line and rest is the Specialties and the Specialties is much more consistent in general. Of course when there is a slow down everything may slow down across the board.
- Sumit Paul:** Can we say 60% remains more or less relatively constant and the remaining 40% can again be split into Sulfuric Acid or things which move up and down, something like that?
- Bimal Goculdas:** Yes that's right, about 40% moves up and down, much more volatile than the Specialties business.
- Sumit Paul:** So you are saying more or less the revenue will be determined by the prices as of now until and unless we move towards the Specialty predominantly?
- Bimal Goculdas:** In general, yes, but if the specialties also we have seen as I mentioned earlier, we have seen slowdown in demand across sectors and across geographies, so then our plant gets affected that there as well.

- Sumit Paul:** For a company of yours and also for the general chemical industry in India, so the times we are seeing right now in the next 5-6 years horizon can we say that it's probably the worst sentiment or the worst demand or how do you feel by our experience?
- Bimal Gocaldas:** No, not at all like that. I think there is a slowdown in demand but I also mentioned that I am optimistic about the future of the industry in general. As I mentioned India is the only viable alternative to China globally. It is the right time over the next few years for industry to grow, for industry to consolidate and to grow our scale. Indian industry is about \$150 billion and we are targeting double-digit growth. Of course you can't expect it to be quarter-on-quarter and things like that but in general we expect the industry to have a healthy growth.
- Moderator:** Next question is from the line of Rajat Sethiya from Vriddhi Capital.
- Rajat Sethiya:** By when do you expect the full form capacity to be operational?
- Bimal Gocaldas:** It takes about 6 months' time.
- Rajat Sethiya:** So 6 months from now you expect it to be operational?
- Bimal Gocaldas:** Yes.
- Rajat Sethiya:** And CAPEX that we are going to incur on that facility is around 20 crores?
- Bimal Gocaldas:** Correct.
- Moderator:** Next question is from the line of Ashok Patel from India SME.
- Ashok Patel:** My question is regarding products; so as you mentioned earlier in the AGM we were exploring products like Diphenyl Sulfone and Dihydroxyl Phenyl which have potential of around 100 Cr, so any updates on that?
- Bimal Gocaldas:** Yes, so that is still our target and that is why we are making these investments. So we expect to achieve 100 crores that is our target and that is why we are making the investments in the plant.
- Ashok Patel:** Regarding more on specialty, how are we over there?
- Bimal Gocaldas:** Its still under development, not commercialized yet.
- Ashok Patel:** Regarding Sulfuric Acid realization compared to average prices of fiscal year '19 how do we stand on that?
- Bimal Gocaldas:** Off-hand I wouldn't know what definitely lower than last year, definitely.

- Ashok Patel:** Roughly just ballpark figure and if you could quantify, how much more?
- Bimal Goculdas:** 50% lower but I wouldn't know exactly off-hand.
- Ashok Patel:** Top five products contribute how much of our percentage of sales?
- Bimal Goculdas:** Top five products would be if you would include Sulfuric Acid in that it would be maybe 70%-75% of sales.
- Ashok Patel:** Excluding Sulfuric Acid?
- Bimal Goculdas:** If you would exclude Sulfuric Acid that Acid group itself is around 30% to 40%; so you have to minus that.
- Ashok Patel:** Regarding our top products like Benzene, Sulfonyl Chloride, Sodium Vinyl Sulfonate; we are still the market leaders in this segment?
- Bimal Goculdas:** Yes.
- Ashok Patel:** Are there any new competitors?
- Bimal Goculdas:** Less than last year but certainly we retain our position.
- Ashok Patel:** But no new competitors on that products, right?
- Bimal Goculdas:** Not as far as we know.
- Moderator:** Next question is from Manoj Agarwal from Alpha Asset Management.
- Manoj Agarwal:** The question is on the margins, last year we understand that the margins both on the gross and the operating level hit the peak in the sense that the end products were selling at a higher price and the raw materials were cheaper, so the spread was very wide and which was not sustainable; we all appreciate that. While looking at your operating margins it was in last year it touched almost 30% at one point in time. Your last quarter if I'm not mistaken and this is a Q2 this fiscal it's about 17% operating margins and gross margins are almost at 50%, so what is the more sustainable gross and operating? I understand that it depends on the product mix and there will be quarter-on-quarter variability but may be any more annualized basis and as a guideline or something aspirational for both gross and operating margins please?
- Bimal Goculdas:** Very difficult to put out a forecast and generally I tend not to do that; but I am happy to discuss any of the quarters and give you reasons for the same because we don't target any particular number. We are targeting the maximum. In general the commodities have lower margins and the Specialties have higher margins but last year was turned topsy-turvy on that.

- Manoj Agarwal:** This quarter Q2, FY20 the operating margins were 17% and some of the reasons were exceptional in nature. They will unlikely be present in Q3 current quarter and may be Q4 as well; so is 17% be sort of bottom? It should improve if my math is correct because those exceptional events that you alluded to should not be there and you have already hinted on some of the recovery already underway?
- Bimal Goculdas:** Right but we can't predict how the market behaves and if the slowdown continues—I don't want to make a commitment and then have all of you acting on it—so I would rather not make a number commitment.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you.
- Bimal Goculdas:** Thank you and once again thank all of you for taking the time to attend this conference. I also would like to thank once again PhillipCapital for organizing this and just one comment; we in general DMCC we don't make projections and we don't like to make a number forecast, so if we can avoid questions like that it would be better. I'm happy to discuss business reasons especially historical business or recent business and macro trends for the industry as well. Thank you very much.
- Moderator:** Thank you very much members of management. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.