

25.01.2024

To,
National Stock Exchange of India Limited
“Exchange Plaza”,
Bandra-Kurla Complex,
Bandra (East) Mumbai 400 051

BSE Limited
Floor- 25, P J Tower,
Dalal Street,
Mumbai 400 001

SYMBOL:- EPIGRAL

Scrip Code: 543332

Dear Sirs,

Sub.: Transcript of Earnings Conference Call held on 24th January, 2024 for Q3 FY24 – Un-Audited Financial Results

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith Transcript of Earnings Conference Call held on 24th January, 2024 for Q3 FY24 – Un-Audited Financial Results.

The said Transcript is also available at www.epigral.com in the Investor Relations section.

This is for information and records.

Thanking you,

Yours faithfully,

For Epigral Limited

(formerly known as ‘Meghmani Finechem Limited’)

Maulik Patel
Chairman and Managing Director
DIN: 02006947



Epigral Limited

(formerly known as **Meghmani Finechem Limited**)

Epigral Tower, Behind Safal Profitaire, Corporate Road
Prahlnagar, Ahmedabad 380015, Gujarat, India.

T +91 79 2970 9600

E info@epigral.com

W epigral.com



Epigral Limited
Q3 FY24 Earnings Conference Call

Event Date / Time : 24/01/2024, 16:30 Hrs.
Event Duration : 57 mins 36 secs

CORPORATE PARTICIPANTS:

Mr. Maulik Patel

Chairman and Managing Director

Mr. Kaushal Soparkar

Executive Director

Mr. Sanjay Jain

Chief Financial Officer

Mr. Milind Kotecha

Investor Relations

Q&A PARTICIPANTS:

1. **Priyank Chheda** : Vallum Capital
2. **Balkrushna Vaghasia** : Axanoun Investment
3. **Riya Mehta** : Aequitas Investment
4. **Mohith Sharma** : Prime Wealth
5. **Shubham Upadhyay** : The Microcap Minute

Moderator

Good evening, ladies and gentlemen. I'm Pelcia, Moderator for the conference call. Welcome to Epigral Limited Q3 FY24 Earnings Conference Call. As a reminder, all participants 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 any assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Rohit. Thank you. And over to you sir.

Arya Rohit

Thank you, Pelcia. Good evening, everyone. Thank you for joining us on Epigral Limited Q3 FY24 results conference call. We would like to thank the management for giving us this opportunity. On this call we are joined with Epigral's management represented by Mr. Maulik Patel, Chairman and Managing Director; Mr. Kaushal Soparkar, Executive Director; Mr. Sanjay Jain, Chief Financial Officer; and Mr. Milind Kotecha, Investor Relations. I would like to invite Mr. Maulik Patel to initiate the proceedings with his opening remarks post which we will have a Q&A session. Thank you and over to you sir.

Maulik Patel

Thank you, Rohit. Good afternoon, everyone, and welcome to the call to discuss Epigral's Q3 FY24 performance. I believe you had an opportunity to view the earning presentation that was released earlier today. Chemical industry continued to be under pressure in Q3 FY24 as well. Destocking is still continued and the demand from certain industries was low in the quarter. We believe current scenario is short term and demand might revive in coming months. Long-term outlook for chemical and manufacturing industry looks positive. Even in this situation, we have witnessed 18% YoY volume growth in Q3 FY24, and for nine months of FY24 we have witnessed volume growth of 17%. This growth is majorly coming from the new products that we commission in FY23 like Epichlorohydrin and the CPVC Resin.

So, our continuous CapEx in previous years has led us to the volume growth and also catering to diversify industries and customer base. This led to be less impacted in this challenging environment. Volume growth in FY24 is coming from the projects we commissioned in FY23. Similarly, this year we will commission additional capacity of CPVC Resin of 45,000 tons per annum, new capacity of CPVC compound of 35,000 tons per annum, and new capacity of Chlorotoluenes value chain. This will drive the volume growth both in FY25 and FY26. Our focus on transitioning and diversify our business model has borne fruit as can be seen from the revenue contribution from derivative business and in the nine months of FY24.

Revenue from derivatives and the specialty segment contributed 42% versus 27% previous year for similar period. This 42% will further increase as our all future expansion plans are towards derivatives and the specialty segment. This diversification helps us to withstand against challenging business scenario like current times. This diversified expansion strategies benefit is clearly visible in Q3 FY24 on QoQ basis where revenue is almost flat, but marked increase in PAT by 29%. We are focused to do continuous expansions in high-value and high-growth products, strengthening our integrated complex and catering to diversified industries to bring consistent growth in the business.

I now hand over the call to Mr. Sanjay Jain, our CFO, who will take us through the financials.

Sanjay Jain

Thank you, Maulik. Let me take you through the financial performance of the company. We witnessed revenue of INR 472 crore in Q3 FY24 against INR 478 crore in Q2 FY24 that is a flat growth for QoQ basis, a decrease of 14% on year only basis. Revenue contribution from derivative and specialty business achieved to 42% in nine months FY24 against 27% in nine months FY23. EBITDA stood at INR 123 crore in Q3 FY24 that is growth of 14% in absolute value on QoQ basis. EBITDA margin improved to 26% in Q3 FY24 against 23% in Q2 FY24, on account of increase in overall capacity utilization, higher volume of CPVC and Epichlorohydrin and overall improvement in the efficiencies.

PAT stood at INR 49 crore in Q3 FY24, that is growth of 29% QoQ basis. PAT margin stood at 10% in Q3 FY24 against 8% in Q2 FY24. For nine months of FY24, we witnessed volume growth of 78% against nine months of previous year. The volume growth is majorly from Derivative and Specialty segment. Overall capacity utilization of the plant stood at 81% on Q3 FY24 against 77% of Q2. For trailing 12 months, as on 31st December 2023, the return on capital employed stood at 18%. This is after considering the capital work in progress. Ignoring the same, the return of capital employed stand at 21%.

Our net debt stood at INR 944 crore as on 31st December 2023 versus INR 863 crore as on 31st March 2023. Thus, net debt increased by INR 81 crore as company has incurred cash outflow of INR 323 crore for capital expenditure backed by strong cash flow from operations. In Q3 FY24, the company has redeemed preference share of INR 30 crore and have outstanding at INR 120 crore as on 31st December 2023 compared to peak of INR 211 crore. Our net debt to EBITDA has stood at 1.96x in Q3 FY24 against 1.83x in Q2 FY24. We were able to maintain the ratio even in this challenging business environment and continuous expansion. The net debt equity of the company also stood at 0.8x in Q3 FY24, which was 0.85x in Q2 FY24.

With this, we can now open the floor for questions and answers. Thanks.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad, and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda

Hi, sir. Thank you for the opportunity. My question is on the margins for derivatives. If you can share for Q3 and Q2, and also what would be the rough margins that derivatives would have made on nine months basis?

Milind Kotecha

So, margin, as you would see that we have made a margin of 26% for the Q3 FY24, EBITDA margin. And again, current quarter and considering the nine months, the Chlor-Alkali is bit on a lower side and the derivative is a bit on a higher side, that's where we have the strategy of diversifying is actually playing us and we are benefiting our EBITDA margins. But again, that is the current situation and actually we are not sharing the segment-wise EBITDA margin, even for quarter or nine months.

Priyank Chheda

Okay. So, it's a request. Since we have been diversifying our strategy from Chlor-Alkali to derivatives, and given the derivatives are improving on the margins front. As a good corporate practice, it would be good if we share on a total derivative basis. We're not asking for an individual chemistry. It would give us a better picture and better evaluation criteria. So, just a suggestion on that. The second question is on Epichlorohydrin, if you can help us with it. We were looking towards a ramping up of our utilizations. What are the current utilizations and how much are we confident to ramp up this number in the FY24?

Milind Kotecha

So, the capacity utilization for Epichlorohydrin, which was like last quarter in the range of 40%, 45%, that has gone up to around 55%, 60%, and again that will improve on from the Q4 onwards. So, we are in line with what we had estimated in terms of ramping up of the Epichlorohydrin capacity.

Priyank Chheda

Got it. We did see the CPVC compounds capacity, which is getting added. If you can help us, what are the realization spread and the industry dynamics on CPVC compounds? Would it be similar to kind of a CPVC Resins that we're planning for?

Milind Kotecha

So, CPVC compound as you would see, I mean we have announced the capacity of around 35,000 tons per annum. So, as you would be knowing, the CPVC Resin goes into CPVC compound and CPVC compound will be ultimately used to make the pipes. So, when we started selling CPVC Resin, we saw there is a market for the CPVC compound as well, there are customers, so that's where we entered into it. And in terms of the margins, if you put either, I mean, even when we sell the CPVC compound, the margin remains in the same range.

So, it's not that something great or even on the lower side. It will be in the same range as what we would have earned in the CPVC Resin. So, that remains intact. And market, if we talk about that, CPVC compound market is also growing in line with the CPVC pipe market. So, that's where we see the potential for to sell this product as well. So, it's a combination. We can sell the full CPVC Resin, and if the demand comes for the CPVC compound, we can sell that as well. So, it's open for us what to cater to market.

Priyank Chheda

Sure. And just to clarify, on this CPVC Resin, capacity is an independent capacity which is ready for month end sales and CPVC compounds is over and above the CPVC Resins which we would not be having any intersegment sales, correct?

Milind Kotecha

No, it's a forward integration of CPVC Resin. So basically, for example, if we make 75,000 tons of CPVC Resin and we sell everything in the market, then there is nothing for the CPVC compound. But if you make CPVC compound, then the Resin required to make the CPVC compound will be coming from the CPVC Resin.

Priyank Chheda

And ratio would be roughly 1:1?

Maulik Patel

No, it's roughly around 0.8.

Priyank Chheda

0.8 of Resins is required to make one unit of compounds, correct?

Maulik Patel

Yeah, that's right.

Priyank Chheda

Got it. And just the last question before I come back in the queue. You did mention that overall pricing on the derivatives has bottomed, has slightly -- the reduction that we have been witnessing in the prices has now reduced. Do we see in overall all the derivatives wherever we are present in across the chemistries, has the pricing bottomed out? What are the signs that you're looking towards the bottoming out of the prices? Or in case if you want to highlight, are there any derivatives where you are witnessing furthermore pressure coming up from the China?

Maulik Patel

Looking at the current energy cost of Chloro-Alkali, we feel that this is all the derivative price is almost bottom out in the third quarter. Now, we see some positive sign going forward, market is also improving and we see the positive impact is coming from Q4 onwards. So, I think initially were expecting that H2 will be better and H1 will be the worst in the chemical since last 15 years, and we feel that that was extended one more quarter up to Q3 and probably from Q4 we are seeing some positive sign in terms of the recovery of the demand on started moving the inventory at least.

Priyank Chheda

And that's equally applicable towards the Chloro-Alkali also, right?

Maulik Patel

Yes, definitely. Because if the Derivatives and Specialty segment will improve definitely the major portion on customers for the Chloro-Alkali segment in the western part of India is all chemical companies. So, definitely textile has already improved as I mentioned in the last couple of months. It has already improved to almost 90%, 95%. It has recovered after Diwali, and other segments also we are seeing it will start moving up from January, yes.

Priyank Chheda

Just a last question, data entry point. What was the utilization for Chloro-Alkali? Last quarter it was around 75%.

Milind Kotecha

So, it is again in the range of around 78%, 80% kind of thing.

Priyank Chheda

Got it. Thank you, sir.

Milind Kotecha

Welcome.

Moderator

Thank you. Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. Next question comes from Balkrushna Vaghasia from Axanoun Investment. Please go ahead.

Balkrushna Vaghasia

Hello. Good evening.

Milind Kotecha

Good evening.

Balkrushna Vaghasia

I have some broad questions, like strategic questions. So basically, if I look at India in terms of CPVC production, so lot of maybe 50% of that is getting imported and 50% kind of is being produced in India. Correct me if I'm wrong. So, my question is, like some of the big players who are making PVC, so why they are not thinking about making CPVC also?

Maulik Patel

First of all, the CPVC is not like a PVC kind of technology which is available openly for setting up the plant. This is one first requirement. So, you need to invest, you need to find out, you need to do some R&D also in terms of engineering also, in terms of chemistry also. So, it is not an openly available technology for setting up a plant. This is one reason.

And the second reason, the PVC and the CPVC both are completely different technology. It is not something related to the PVC kind of molecule which is readymade technology which is available from the different sources. And the capacity which you mentioned, yes, it is right, 40% of the capacity I think of the PVC requirement of India is produced in India, 60% is imported. The major reason is ethylene, the petrochemical source which is required to manufacture the PVC. Where PVC is the last priority compared to polyethylene, which is the first priority in terms of the investment because of the higher IRR and higher returns compared to the CapEx.

So, that's why all the ethylene goes majorly into the polyethylene rather than the PVC molecule in India, because growth in every resin, as domestic demand is growing in every sector in India. So, there is a demand growing in polyethylene also and there is a demand growing in PVC also. That's why PVC is always lagged behind in India, and it is dependent mostly on the import basis.

Balkrushna Vaghasia

Okay. Thank you. And about the ECH, so in terms of tons, like what is the consumption in India currently?

Maulik Patel

So, current consumption of ECH in India is roughly around 85,000 tons to 90,000 tons by end of this year. And we are expecting in next 2 years' time, it will be almost, it is going to be 180,000 tons, which is almost double than what is today. Because lot of expansion is going on in the epoxy resin side and the other application side

also in India. And everybody has announced their plant, and their plant is under construction for setting up epoxy resin or other applications. And we are expecting in two years down the line it will reach to almost around 180,000 tons per annum capacity of Epichlorohydrin in India.

Balkrushna Vaghasia

And there was some antidumping duty application was filed by you for ECH. So, do you have any update on that?

Maulik Patel

No, that's under process. So, I don't know how much time it takes in the government. So, nobody is having any idea about that part. But in terms of Epichlorohydrin, in terms of epoxy resin, the consumption of India is growing very fast because majorly it is used in the three growing segment of India where the domestic demand is growing. One is automobile, second is infrastructure, and third biggest is the construction sector. So, all three sectors are growing very fast. Sorry. Third sector is windmill, renewable energy. So, all three sector is in a high growth path in India, and we believe the numbers, what we are mentioning right now about 180,000 or 160,000 tons consumption of Epichlorohydrin in two years down the line will achieve earlier than what we are expecting.

Balkrushna Vaghasia

Okay. And last question. So, in the last conference call I think I understood that you were also exporting ECH, right?

Maulik Patel

Yes.

Balkrushna Vaghasia

So, in this regard I have a question that since you are the first who is producing ECH in India, and now you are also exporting whereas a lot of people might be importing also. So, what is causing this? Is this a price or what is the reason for this?

Maulik Patel

There are multiple reasons. One is definitely the price; another is everybody would like to keep two or three vendors in their approval list. People cannot depend on one particular vendor. So, this is the major reason. But as domestic capacity available, we believe that going forward the domestic preference will be on the higher side going forward, because it is lot of logistical challenge in the current scenario to import in such a bulk raw material which is liquid, where the storage of the raw material is also a challenge. So, as the capacity is increasing in India, we believe that domestic vendors will be the first preference on the supplier side going forward.

Balkrushna Vaghasia

Thank you. That's it from my side.

Moderator

Thank you. Next question comes from Riya Mehta from Aequitas Investment. Please go ahead.

Riya Mehta

Thank you for giving me the opportunity, and sorry if my questions are repeated. I just joined the queue later. My first question is in terms of caustic. So basically, what is the current realization, as per capacity utilization for caustic?

Milind Kotecha

Current realization for the caustic would be in the range of 31,000 - 32,000 and the capacity utilization for the Q3 is in the range of 78%, 80%.

Riya Mehta

78-80%. And this would be majorly coming from a normal sector or is there any particular sector which is outgrowing others?

Milind Kotecha

It is well diversified. It's not specific to going in a specific segment. It's well diversified.

Riya Mehta

And I think last year, we were seeing a lot of increase in both the caustic to your [Inaudible 00:22:00]. So, how are things going from there? Are we still exporting or mainly because of the geopolitical issues the shipping has been an issue to Europe, so what is the scene there?

Maulik Patel

No, no. Right now, the situation in Europe is completely reversed. It is in the worst situation and all the companies in Europe [Inaudible 00:22:23] so most of their plants are running at 60%, 65% level because of the high energy cost and the downstream demand. So, there is no additional demand coming from the Asia for the export. So, there is no opportunity at least in this current scenario from India or any other country to European region.

Riya Mehta

Are we exporting caustic right now?

Maulik Patel

No, we are not exporting. We are selling to eastern part of India to the customers from time to time, but we are not exporting right now.

Riya Mehta

And what is the trend of the realization currently? Are we seeing this getting consolidated at these levels? I think since, I think a couple of months now.

Milind Kotecha

Yes. So, currently the realizations have been in this range even in the situation when the demand is bit under pressure and even when there is good supply, I mean there is a good amount of supply in the market. So, we believe the current range which we have is kind of a bottom out and things might stay at this level or improve down the line.

Riya Mehta

Got it. And in case of the raw material, what is the current cost of power?

Milind Kotecha

So, in terms of the energy, the prices have been, you can say come down a bit, but it has not gone to the level of pre-COVID levels. So, it has gone down but not to the extent of the drop in the realizations of the Chlor-Alkali. So, that's where there is a bit pressure on the Chlor-Alkali margin, you can say for this year. So, that's where it has to be. I won't be able to share the exact price of per unit cost.

Riya Mehta

Okay, got it. And in terms of last year what would be the realization currently?

Sanjay Jain

Sorry?

Riya Mehta

ECH realization.

Milind Kotecha

ECH?

Riya Mehta

Yes.

Milind Kotecha

You are asking Epichlorohydrin or caustic soda realization?

Riya Mehta

Epichlorohydrin, ECH.

Milind Kotecha

So, Epichlorohydrin realization has been in the range of around 1,00,000 to 1,05,000.

Riya Mehta

Okay. And the other player of the ECH capacity will be coming up soon. So, do you think there will be glut and that will lead to lower realization?

Milind Kotecha

See, what you said is right. The other capacities will be coming. But as earlier in the early comments, Maulik sir just informed the way the epoxy manufacturers are increasing the capacity, and the way demand is growing in India. The current demand of ECH, which is around 90,000 tons per annum, which will reach to around 1,20,000 maybe next year and in two years' time it will reach to around 1,80,000 tons per annum.

So, that's where any new capacities that will be coming will be absorbed. Plus, our products are well approved by the customers, we have already established market for us in the Europe and the US. So, we are in a much better position in terms of serving the customers. So, even if the new player comes, I guess the demand which is going will absorb the supply that will be coming.

Riya Mehta

And what will be your export percentage in ECH predominantly?

Sanjay Jain

Around 30% to 35% as of now.

Riya Mehta

30% to 35%. Okay, that's it for my side. I'll join the queue for further questions.

Moderator

Thank you. Next question comes from Mohith Sharma from Prime Wealth. Please go ahead.

Mohith Sharma

Hi, sir. First of all, congratulations for good set of number. And I just have three questions. What is your current ECU realization in Q3 versus Q2?

Milind Kotecha

Sorry, ECU realization for Q3?

Milind Kotecha

The realization, ECU realization for Q3 is about 27,000 to 28,000 as of now.

Mohith Sharma

27,000 to 28,000. Okay, sir. And how much we consume chlorine in-house?

Milind Kotecha

So currently with the expansion that we did, along with the expansion in the Chlor-Alkali, our chlorine consumption in-house ranges in the range of 65%, 70%. And as this year, we will be commissioning the additional capacity of CPVC resin and the Chlorotoluene. So, that will further consume chlorine that will be coming from the Chlor-Alkali plant. So, in a matter of two to three years, we anticipate that it will reach around 85% of chlorine consuming in house.

Mohith Sharma

And while consuming the chlorine, do we have the byproduct HCL or it is entirely chlorine consumption?

Milind Kotecha

Sorry, I didn't get the question. Can you repeat?

Maulik Patel

Yes, it is in the form of chlorine and HCL both. Some of the product we used as a HCL, some of the product it is used as a chlorine itself. But as Milind has mentioned, we will consume 85% of the chlorine whatever we

produced in one year down the line as our CPVC expansion and the Chlorotoluene will be streamlined. Chlorotoluene project also will be streamlined in next six to nine months' time.

Mohith Sharma

Okay, sir. And do we sell hydrogen also? And if we sell hydrogen, do we include the same in the calculation of ECU?

Maulik Patel

Hydrogen sell is additional, but additional than the ECU. But hydrogen we are selling also and hydrogen we are consuming in the hydrogen peroxide also. So, we have application of hydrogen is in the both, as a product also as a downstream product also.

Mohith Sharma

And how much we sell out of our total production? If we have number available, like 40%, 50%.

Maulik Patel

So, we are selling roughly around 40,000 to 50,000 meters cube per day.

Mohith Sharma

Okay, that's all from my side. Thank you, sir.

Moderator

Thank you. Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. I repeat ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. Next question comes from Shubham Upadhyay from The Microcap Minute. Please go ahead.

Shubham Upadhyay

Hello. Good evening, everyone. Most of my questions have been answered. So, I have just one quick small question. I'm sorry if it is a repeat question. So, I've been going through the investor presentation and the

project update which you have given. Two of the projects are very close to completion, like 85% and 90%. So, can we expect some contribution from these particular projects into the top line in this quarter?

Maulik Patel

No, I don't think so. So, by end of fourth quarter it is going to be completed. So, we are not expecting any of the revenue will come from the existing financial year.

Shubham Upadhyay

Okay. And another CapEx you have mentioned is like INR 47 crore, will that be spent in this particular quarter itself?

Milind Kotecha

Yes. So that is an estimate, but yes, it will be spent in this quarter.

Shubham Upadhyay

Okay. And any more CapEx plan for next financial year?

Milind Kotecha

Every year we have a continuous CapEx. So, generally it will be ranging around INR 300-350 crore. One year can be here and there. But yes, definitely we will be doing continuous CapEx for the growth.

Shubham Upadhyay

Okay. Thank you. I'll rejoin the queue.

Moderator

Thank you. Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. We have a follow up question from Riya Mehta from Aequitas Investment. Please go ahead.

Riya Mehta

Thank you for giving me the opportunity again. My question is in regards to CPVC Resin. So currently what kind of utilization levels are we at and the realizations?

Maulik Patel

Currently the CPVC utilization is around 85%, and the revenue which we are getting it is roughly around INR 140 kind of average.

Riya Mehta

And are we expecting on Q4 the newer capacity to come up. When would we expect the ramp up of the incremental capacity?

Maulik Patel

I think that you can expect optimum level. We are expecting by end of H1 next financial year.

Riya Mehta

H1?

Maulik Patel

Next financial year. Optimum capacity will reach by that time. Yes.

Riya Mehta

H1 FY25. Right. And could you elaborate on the CPVC compound, the application and how is it different than how is the entire chemistry?

Milind Kotecha

So basically, CPVC Resin is what we make. So, after CPVC Resin one makes CPVC compound and then from CPVC compound pipes and fittings can be made. So that's where we have forward integrated into the CPVC compound as well to cater to all kinds of customers that are there in India.

Riya Mehta

Right. So basically, we'll use captive CPVC for our CPVC compound?

Maulik Patel

Yes. 80% of the customers are based on resin, and 20% customers they prefer to have a compound directly. So, we don't want to miss out those customers and that's why we have set up with this plan for the compound.

Riya Mehta

Okay. So, post this commissioning of the compound, how much percentage of the resin would be used for captive consumption?

Maulik Patel

So that, we have capacity which we have built 35,000, but we will be utilizing I think 50% kind of thing by end of H1 next financial year, yes.

Riya Mehta

Okay. It could be higher margin, that is the reason.

Maulik Patel

No, slightly higher in terms of margins compared to, because this is a value addition and one step forward integration. It is slightly better margin than the resin, but it's not big difference, because there is no much. It's a very simple process, it's not a complicated process.

Riya Mehta

Okay, got it. And in terms of our other products like Chloromethane and Hydrogen Peroxide, are we everything [Inaudible 00:33:42] for realization?

Milind Kotecha

Sorry, I didn't get your question.

Riya Mehta

Chloromethane and Hydrogen Peroxide, what are the realizations like and utilization level? I think last year we were almost at around 100%. So, just wanted to know.

Milind Kotecha

So, that stands even for this quarter in both Chloromethane and Hydrogen Peroxide. And the realizations would be again in the hydrogen peroxide it is somewhere around 25,000, 26,000. And in terms of the CMS, it would be somewhere around 30,000, 32,000.

Riya Mehta

Right. I think that's it from my side. Thank you so much.

Moderator

Thank you. We have a follow up question from Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda

Yes. My question is on Chlorotoluene. So, if you can help us with how long is the customer approval? We understand that it goes into as an intermediate for pharma, agro and CDMO application. So, how are we on the customer approval front? And if you can help us on the further what would be the kind of value addition product that we are thinking, where are we on that?

Maulik Patel

Yes, so Chlorotoluene, it is majorly going into the pharma and agro customers and I think we are targeting 50% of the domestic market and 50% on the export market. So domestic approval will come very fast compared to the export approval. So, we are expecting initial sales will generate from the domestic vendors and going forward all the approval will achieve. Probably it will take six to nine months' time for the export customers at least to get an approval. But we will by end of FY25 we are expecting to reach more than 60% of the capacity of the Chlorotoluene, including the derivatives or including the specialty product, which we are going to add as a further capacity.

Priyank Chheda

Sir, how different is our chemistry with respect to the capacity of Chlorotoluene which has been getting added by Aarti and Gujarat Alkalies, how are we different in that? If you can help us with that?

Maulik Patel

Chlorotoluene is a simple word where people are using for many different ways, but this is a completely different chemistry in first time in India, where this facility which we are doing it. The facility which Aarti has announced also the similar, but I think GACL has announced it's a completely different Chlorotoluene which is not in line with what we are going to do it and Aarti is going to do it, yes.

Priyank Chheda

So, you mean that given the varied application of Chlorotoluene our 15,000 ton is dedicated towards a very specific kind of application where our competition is not adding any capacity. Is my understanding correct?

Maulik Patel

Yes. Right now, I think, we are the first one and I think we are the first one in India and no one is adding the capacity right now at least. The GACL is not doing it. Aarti, we don't have the status of the project. But yes, so we are the first one right now in India and nobody has a similar chemistry from India.

Priyank Chheda

So, is this product getting imported today which we would be replacing the imports or is it a new market that we are developing?

Maulik Patel

So it is, right now this product is completely imported from China, Japan and Europe. Nobody else is manufacturing. So, lot of custom manufacturing companies who are buying this raw material from other from China, Japan and Europe. So, we believe that this market is going to increase in next 5 to 10 years' time and completely as a Make in India, people don't need to depend on other part or the third part of the world, and all the multinationals who are in the agro or pharma they also believe and they also need a complete value chain

from, and as a second option other than the China country people need completely value, entire supply chain from India. So, we are going to support this part and to all the specialty chemical company in India.

Priyank Chheda

Got it. And if you can help us with how much of this product is getting imported in India as on date, where we would be having 15,000 capacity, so that we get to know how much are we replacing as an import substitution?

Maulik Patel

So, this product in last five years it has a major change. It is not something very huge market. This is a niche kind of thing, and YoY the volume is increasing because custom manufacturing companies in India they are also increasing and the people also they are diverting their molecules to Indian companies for their custom manufacturing. So, volume YoY it is increasing of this kind of chemistry. So, this is a bundle of the products where 10 to 50 products with 10 products out of all we are targeting only the 10 products in the first phase, and going forward we are going to do value addition and we might add further steps in the add-on chemistry from this. But this is going to be in the future, not now. Right now we are focusing in the first phase where there are 10 different kind of products are there out of entire Chlorotoluene and value chain here.

Priyank Chheda

So, if I have to get more clarity on this, the 10 products that we are manufacturing is the exact size of kind of an import. So, 15,000 tons would be getting imported for this 10 products which we would be completely replacing it. And once this replacement is done in next by FY2026, we would then again go for a further value-add products which are again also getting imported.

Maulik Patel

That's right.

Priyank Chheda

Got it. Sir, I have other question on the long-term capital allocation thoughts. So, given that we have been ending our very large capacity additions in last two-three years. We have almost been spending INR 400 crores to INR 350 crores for last two-three years per annum. How do we think of strengthening our balance sheet further, given that we have INR 1,000 crore kind of a debt? What are our debt reduction plans? If you can also help us with what would be the free cash flow allocation that we would think of?

Milind Kotecha

Considering the current debt that we have all put together is around INR 940 crore, working capital and the long-term debt. So, that is a peak debt that we have, that debt will, down the line might reduce from here on. Because the CapEx that we are completing this year and that will start contributing cash flows from the next year. So, we'll be having good amount of cash flows for doing the CapEx in the range of INR 300 crore, INR 350 crore and also paying a part of the debt. So, I'm not saying the debt will go fully, but debt amount what we have right now is at its peak. Like for example, in the current year itself, if you look at the debt that we have.

Our debt has been increased from 31st March to 31st December. It has been increased by INR 80 crore, whereas we have spent a CapEx of around INR 323 crore. So, the INR 250 crore of CapEx that amounts we have spent is coming from the internal accruals. So that is from, and again in the year which is totally down as of now. So, these projects we commissioned plus the other CapEx that we will get commissioned this year that will start throwing a good amount of cash flows to fund the CapEx also and also in terms of paying off the debt.

Maulik Patel

So overall, our balance sheet size will increase, the debt in absolute terms will remain almost similar level to meet the requirement of future cash flow of future expansion, future CapEx.

Priyank Chheda

Okay. So, what I've understood is, in a full perfect year where all the capacities would get commissioned, we would have a somewhere cash flow of around INR 500 crores-odd give and take some percentage points over here. So, we would continue with INR 300 crores, INR 350 crores of CapEx every year. Is that the understanding that we should build in?

Milind Kotecha

It could be around INR 300 crore. See, again, once we put the project, every phase has a different out of cash flow. Cash flow outflow is different at different point of time. But you can consider around INR 300 crore of CapEx that could happen. But what you said in terms of the cash input from the cash flow from operations would be around INR 500 crore. So, after that INR 300 crore would be the CapEx, the balance can be used to pay dividend and to reduce our debt.

Priyank Chheda

Okay. And how much would be the term loan out of INR 944 crore, and what are the repayment schedules for that?

Sanjay Jain

Presently with the debt of INR 944 crore, around INR 640 crore is a long-term debt.

Priyank Chheda

And what are the repayment schedules for this?

Sanjay Jain

It's around 3 to 3.5 years as of now from this, except one loan which has been recently availed, INR 200 crore every year.

Milind Kotecha

So, yes, INR 650 crore. So, every year we have a repayment schedule of around INR 180 crore. So that's around 3.5 to 4 years. And also, just to point to that, we have a redeemable preference shares in our books that also we have reduced from INR 150 crore to INR 120 crore.

Priyank Chheda

Okay, got it. And roughly what would be maintenance CapEx per year?

Maulik Patel

Maintenance, the plants which are old assets that will be around kind of 2% kind of thing and the new assets must be having around 1.5% kind of thing.

Priyank Chheda

Got it. All right. Thanks for answering all the questions. Thank you.

Milind Kotecha

Thank you.

Moderator

Thank you. We have a follow up question from Mohith Sharma from Prime Wealth. Please go ahead.

Mohith Sharma

Sir, you told me the ECU was around 27,000, 28,000. Do we include flakes or lye in the ECU calculation?

Milind Kotecha

It's a combination of both.

Mohith Sharma

Okay, combination of. And sir, just our data I can see that there is a drop of around 40%, 45% in the ECU prices. So, when do you expect the market will be back to normal or there will be some increase in the prices or this is the new normal?

Milind Kotecha

See, currently the realizations are around in the range of 31,000 - 32,000, and again it's difficult to give you a number than when it will go up and to what extent, but considering the current situation we feel where we are standing in terms of the realizations, it is bottom out. So, it might improve, but when, again, it's anyone's guess.

Mohith Sharma

Okay, sir. And further our other project, which consumes chlorine. Do we transfer at the market price or internal price? Let's say ton million price or something, because if I'm aware correctly, chlorine currently is running negative.

Milind Kotecha

Yes. So, chlorine that we consume in-house in the other products, there we consider that at a market price.

Mohith Sharma

Market price. Okay, thanks.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We have a follow up question from Balkrushna from Axanoun Investment. Please go ahead.

Balkrushna Vaghasia

Thank you. My question is to Maulik. In some earlier conference call, you have mentioned that consumption of CPVC in India is kind of close to 50% of the global consumption, if I understood it rightly. So, can you tell me why is this like 50% figure? I mean, there is very huge and it is consumed in India and not outside.

Maulik Patel

Yes, it is true. See, CPVC is introduced in India is in 2004, and in terms of development of the infrastructure and speed up process, it started in India, I think after almost China has developed and everything we are in the lastly. And so, every other country they've used PPR as a pipe application for the hot water pipe application, where PPR is there and CPVC for the hot water pipe application, it is easy to handle and easy to install. So, plumbers are feeling much better in terms of handling this product and installing this product in India, and that's why it has picked up very fast in India, and that's why the volume in terms of CPVC Resin.

It is going up drastically from 2004 onwards at least 10-12% minimum in a YoY basis, and that's why it has reached to 50%. And other countries, they have established their plumbing installation and other things based on the PPR. So that's the major difference why India has picked up CPVC for the hot water pipe application compared to other countries. And going forward, we believe like country like US, Korea, and Japan, and even China for fire and sprinkler application also they use CPVC as a resin and that is not yet started in India, still people use and approvals has not yet come from the authority.

So, going forward, we believe that the Indian authority will also change the specification for the fire and sprinkler application and the CPVC Resin application will go up in this application as well. So, we are expecting by 2030 the India volume of CPVC Resin will reach to almost 5 lakhs ton in India. So, I think it is driven by more plumber flexibility and installation, and I think they have driven the growth of CPVC resin in India.

Balkrushna Vaghasia

Okay, and one last question. So, considering the current financial year so far is going, and the way it is going, so whatever guidance I think you have given for the median term, mid 2026 or 2027. So, are we making any changes to that guidance in terms of revenue or EBITDA or something like that?

Maulik Patel

Yes. The guidance which we have given, yes, it might be not exactly the same number, but it might be plus or minus 10% or 15% kind of thing from that level. Because at that point of time, what kind of the product price will be, but our CapEx everything we are doing it based on that, keeping the number in target, we can achieve those numbers in next three years' time.

Balkrushna Vaghasia

Thank you. That's all from my side.

Moderator

Thank you. We have a follow up question from Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda

Hi. Thanks for the opportunity again. For continuing on the discussion on the capital allocation. So, Maulik sir, when we think about adding further more new chemistries and we have been witnessing that as companies been progressing from 75% Chlor-Alkali to now it would go below 35% say next one or two years. And when we say that we'd be planning for INR 300 crores, INR 350 crores of CapEx spending. What are the kind of chemistries that we should think of in the derivative side going ahead? Would it be the existing chemistries where you think there is a huge scope to add or would there be a new chemistries that we are working on it?

Maulik Patel

So, there are mix of this. So, we can do the existing chemistry as well as the new chemistry also we are exploring. So that's why we have started R&D center near in Ahmedabad, and there we are working. So, first phase what we are going to establish that everything is over in the R&D and now we are establishing Q4 all the plants and all the products will be commissioned. By the end of Q4 it will be commissioned. But the new chemistry we have started working in our R&D and that is going on.

So, new chemistry also it is there as well as the existing chemistry which we know that is also there. But what is our asset is available and what is our strength that is our first priority and we wanted to play around those chemistry. If we might need to add some more chemistry around that we will add more chemistry, but our core focus will be the chemistry which we already have right now in the first phase.

Priyank Chheda

Please quantify in terms of what would be the minimum asset turns that we look forward if we want to venture into any other new chemistry or based on their prices at that point of time, what are the kind of IRR returns that we think of when we are deciding, when we are canceling down the new CapEx spend, if you can help me on that.

Maulik Patel

So based on today's scenario, if any chemical companies would invest in a specialty chemical, multipurpose kind of plant, the CapEx to turnover ratio I think it is going to be mostly around 1.4 to 1.5 maximum. Based on today's scenario of the capital cost and all the commodity prices.

Priyank Chheda

Got it. And in Chlorotoluene, as you said that we're looking forward for first end products, where we are doing 15,000 tons of capacity. What would be the follow-on CapEx in case we have to go towards value-add segment, what would be the kind of a size and CapEx requirement that would be required?

Maulik Patel

In the Chlorotoluene, on the derivative side, even if you want to do a one block, it is not more than INR 200 crore kind of crore kind of thing in one block. So, I don't think it is much more CapEx or a big size CapEx is required for that kind of chemistry.

Priyank Chheda

And the size would be similar to kind of 15,000-ton size?

Maulik Patel

This is going to be the value addition. So yes, you can say roughly around not 15,000 tons. The 15,000 ton is a major block, but yes close to around 10,000 ton kind of thing.

Priyank Chheda

And so, all the further addition within Chlorotoluene should come at significantly better return on capital given it would have a far better realization. And it would not be kind of a greenfield requirement. So, within existing facility this should result into better return ratios. Am I correct?

Maulik Patel

So, I would say yes, it is correct once we reach to optimum level of the plant capacity. Because initial time, I think it is on the lower side. So, yes, once we reach optimum side, I think you are right that we can get a better realization from this product range.

Priyank Chheda

And to achieve company level EBITDA margins on the newer chemistries. What is the kind of utilization that we should think that after the minimum level, what is that minimum threshold that we would achieve a company level margins on the utilization front?

Milind Kotecha

See, utilization front generally optimum what we consider is around 75% for the plant that we have, 75-80% for the current plants that we have.

Maulik Patel

And compared to the Chlorotoluene kind of plant I think it is more than 60% kind of thing. I think we can achieve.

Priyank Chheda

And breakeven levels would be around 30-40%?

Maulik Patel

Sorry?

Priyank Chheda

Breakeven is achieved at 30-40% utilization levels?

Milind Kotecha

I mean in this there is nothing like as such a breakeven point of view. But yes, if the capacity utilization is dropped below 50% or you can say 40% then again it depends on plant to plant. But then the margins will definitely go down or it will be kind of a breakeven, but if it is higher than that you can earn a better margin.

Maulik Patel

You can expect, when we do any project, we are considering from 25%. Always be kept in mind, definitely depends on the market scenario or demand scenario, it may differ here and there. But we always keep in mind that 25% ROCE we should get when we do any kind of project.

Priyank Chheda

Perfect. So, kind of you. Thanks for answering all the questions.

Milind Kotecha

Thank you.

Moderator

Thank you. There are no further questions. Now I hand over the floor to management for closing comments.

Kaushal Soparkar

Good evening. I would like to convey that long-term story of India remains intact and current situation is short-term and looking at the Indian consumer story we are positive about long-term outlook, and we are working towards that through our future expansion and diversification in terms of multi-product catering various

industries, we are targeting consistent growth both at top line and bottom line. I'd like to thank you for joining us here today. Please feel free to reach our IR if there are still any unanswered questions. Thank you everyone for your participation.

Moderator

Thank you. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day.

-
- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.