



## “I G Petrochemicals Limited Q2 FY23 Earnings Conference Call”

**November 11, 2022**

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**MANAGEMENT MR. PRAMOD BHANDARI – CHIEF FINANCIAL  
OFFICER, I G PETROCHEMICALS LIMITED**



**Moderator:** Ladies and gentlemen, good day, and welcome to the I G Petrochemicals Limited Q2 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “\*” and then “0” on your touch tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pramod Bhandari – I G Petrochemicals Limited. Thank you, and over to you, sir.

**Pramod Bhandari:** Thank you. Good evening, friends. Good evening, everyone. On the behalf of I G Petrochemicals Limited, I extend a warm welcome for joining us on the call today. On this call, we are joined by SGA, our Investor Relations advisor. I hope everyone had an opportunity to go through the financial results and investor presentation, which has been uploaded on Stock Exchange and our Company's website.

To begin with, I will give you a quick overview of the recent development in the chemical industry, followed by the operational and financial performance of I G Petrochemicals.

Over the last few years, many global MNCs are pondering their thoughts and are deliberating looking for alternative suppliers. India manufacture more than 80,000 types of chemical, right from bulk to niche and hold a competitive edge in the world on the back of growing domestic demand, business-friendly policy and demographic advantage. India has all the major raw material required for manufacturing various types of chemicals. Indian manufacturers are well equipped with the required technology, infrastructure, skilled workforce and logistic connectivity and now willing to invest more to tap the growth opportunities .

This further enhanced the growth visibility for the Indian entire chemical sector, industry has outperformed considerably over the last few years and has a strong potential to grow further in the future.

Phthalic Anhydride, The Company's main business revolve around the Phthalic Anhydride, a downstream product of the ortho-xylene which is converted into phthalic, and it is also a third derivative of the crude oil. From crude, it goes into the light naphtha and naphtha to the xylene and xylene to the ortho-xylene and then phthalic anhydride.

It is a versatile intermediate in organic chemistry for the production of plasticizers, unsaturated polymer resins, alkyd resins, paints, CPC pigment, which are broadly serving 20-plus end industries. Consumption of PAN and its derivatives are growing rapidly over the last few years. Earlier, the consumption of phthalic anhydride was highly concentrated to the paint, plasticizer and CPC pigments. It has changed significantly, Many more industries have increased the

application of PAN. PAN is now being used in the production of specialty chemical, agrochemical, specialized polymer, electronic products, insect repellants, UPR. It is also being indigenously used for the making of plastic currency, paperboard, laser board, sail of windmill.

The industry is primarily served by the very few players, not only in India but also globally. IGPL is the largest producer of phthalic in India and enjoy cost reductions driven by the highly integrated and technology-driven state-of-art production facilities at Talaja.

The company has fully integrated manufacturing facility of phthalic anhydride, maleic anhydride, benzoic acid and DEP, which has been added recently at Talaja. We manufacture PAN product at a high scale with a capacity of 222,000 metric ton per year. This capacity is managed by highly skilled manpower and with high-quality control check. Maleic anhydride and benzoic acid are the key by-products created by the wash water while producing the PAN, . The cost of producing these byproducts are insignificant to us. The expansion of DEP commenced in FY '22 with a total capacity of 8,400 ton per annum.

This vertical has also began to contribute meaningfully to our total business. It is worthy to note that the non-phthalic business has been growing steadily and currently hold around 8% to 8.5% of the total revenue. On the export front, our business has presence primarily in the Middle East market and currently contributing around 10% to 12%.

In terms of the expansion, the IGPL has embarked a few growth plans keeping in view the growing demand of the downstream derivatives. The capacity expansion plan of DEP has given thrust to the company's growth trajectory and same will be manifested in coming years. As I stated earlier, the brownfield expansion of PAN capacity , at our existing location is on track and expected to complete before March 2024. In fact, we will start the commercial production before March 2024.

Management team are also assessing a couple of projects. Most of them are downstream products. We will announce more detail whenever it is finalized and approved by the Board. Our team has done an impeccable job with respect to the operational excellence at site. Eight out of 10 quarters, we are continuously generating Rs. 50 crore plus profitability. In Q2 FY '23, we have continued to maintain our growth momentum for the quarter on the back of growing demand of the phthalic anhydride and its derivatives.

For the quarter ended Q2 FY '23, the total revenue stood at around Rs. 575 crore, a growth of 21% on a year-to-year basis. EBITDA was around Rs. 91 crore with a margin of around 16%. The margin was slightly lower compared to the previous quarter, mainly because of the lower quantity of phthalic and lower realization of the maleic anhydride, which has actually gone down substantially compared to the last quarter.

On the half year ended, the total revenue for the first half was Rs. 1,239 crore, a growth of 44% on a year-to-year basis based on the higher volume and the good domestic and international

demand. EBITDA for first half of '23 stood at Rs. 215 crore, a growth of 16% on a year-to-year basis. Operating margin stood at around 17%.

Profit after tax stood at Rs. 137 crore, a growth of 16%. And as on September, the company is net debt free, net debt zero company. Operating efficiency, combined with the positive cash flow from operations put us in a very comfortable position to explore the various downstream derivatives market.

In order to broaden our product portfolio, we have continued to explore the opportunity in downstream, especially the product segment. Over mid- to long term, Indian government continue to underscore the necessity of public investment in infrastructure. We believe the demand for our product portfolio will remain robust for coming period. Long-term reason is to have well diversified chemical company with a leadership position in our phthalic business. We will diversify our product portfolio and expected to achieve a 30% of total revenue by March 2025 of non-phthalic products.

With this, we will open the floor for questions and answers. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

**Nirav Jimudia:** So, I have 2, 3 questions to ask. Sir, first on the phthalic situation in India. So, if you can give your thoughts in terms of how the demand has been in Q2 in terms of the imports? Because last when we interacted, you mentioned that Indian demand for phthalic is around 430,000 tons. And monthly imports were like around 6,000 to 7,000 tons, which were coming to India. So, if you can just touch upon that aspect first. And given the current macro situation, what we have been facing in terms of the Europe problems, had the demand of phthalic impacted in India or elsewhere globally?

**Pramod Bhandari:** So, in India, we continue to have a demand of around 430,000 to 450,000 tons,. In the last quarter also, we have seen the similar type of demand. India continued to import around 6,000 to 8,000 tons per month, which is continuing. I think in the last quarter also, we have imported around 25,000, 26,000 tons.

However, we are seeing some pockets of the pain. We are supplying to all the industries of chemicals. There are some pockets like basically the pigments and all that where the end users are supplying it to Europe and other markets, we are seeing some sale in terms of the demand because generally, they are not able to sell their product to the European market, which essentially use it and then refurbish it and convert it into other products and selling. Because I think there is a challenge of the inflation. There is a challenge of the energy supply at Europe, the cost is very high.

In some pockets, I think we have seen some moderation in the demand, which we believe now generally, it is happening in the Deepavali month also because a lot of guys are on leave. Then

we expect that uptick to come in the second half of the November to December. So, slightly, there is a moderation in demand because of the geopolitical issue and generally the holidays in the domestic market.

**Nirav Jimudia:** Correct. And sir, you touched upon on maleic also, like maleic realizations have fallen sequentially in Q2. So, when we last interacted in Q1 conference call, you mentioned that out of the Rs. 48 crore of revenue what non-phthalic business has done, maleic was around Rs. 27 crore. So, I think this quarter's non-phthalic revenue is Rs. 45 crore to Rs. 46 crore. So, if you can let us know what was the maleic sales this quarter? And individually, if you can break it down for realization.

**Pramod Bhandari:** Yes. So, basically, the actual realization from maleic although the quantity remains same, but the sales has gone down from Rs. 27 crore to Rs. 19 crore. So, basically, the realization has gone down from 150 to around 92 to 95 because global maleic has gone. For us, the advantage is, whatever is the sales in the maleic is directly converted to our EBITDA. But for other players who are actually doing it for n-butane route, it's a loss-making proposition. So, it has impacted Rs. 8 crore to Rs. 9 crore of the revenue realization has lowered in the maleic, which directly translated to EBITDA.

However, it has been grown by the DEP, which was around Rs. 13 crore to Rs. 14 crore, has gone up to Rs. 18 crore to Rs. 19 crore. So, overall, it's around Rs. 530 crore of the revenue from phthalic, Maleic, benzoic acid and DEP is around Rs. 40 crore and Rs. 7 crore is from the other income like interest and dividends and all that.

**Nirav Jimudia:** So, now are we operating our DEP plant fully at around 8,400 tons?

**Pramod Bhandari:** No. We are operating right now around 58% to 60% and we expect to achieve in next 6 months around 90% to 95%.

**Nirav Jimudia:** Correct. Sir, last question from my side is our phthalic capacity is around 222,000 tons, but because we need to change catalyst every year, which you rightly explained last time, what could be the maximum capacity utilization we could achieve in a given year given that we need to change the catalyst every quarter, which you have explained right till last quarter?

**Pramod Bhandari:** We actually change the catalyst every year, not quarter. But having said that, the 4 plant is there. In a particular year, we need to change the catalyst twice. For any block of 3 years, in 1 year, we need to do it. So, basically, every year, it's given we will change the catalyst once in a year, which is around 30 to 35 days. In a particular year, it may be twice.

So, generally, after considering that we are at a capacity utilization of around 90%. So, if we are able to do twice in a particular year of block of 3, it may be 86%, 87% for that particular year.

**Nirav Jimudia:** Got it. And sir, have we done any catalyst change in second quarter because our other expenditures have gone up this quarter?

**Pramod Bhandari:** So, there is no change in the catalyst, it's basically the energy cost of the fuel oil which we are using for the purpose of heating. And generally, it is high in the raining season because the last quarter was full of raining season. So, that has contributed. And we also provided around Rs. 2 crore to Rs. 2.5 crore for the CSR expenditure, which you need to provide as a part of overall expenditure because our liability for CSR is around Rs. 4 crore per year. So, as a prudent practice, we have decided to provide for in the 6 months Rs. 2 crore.

**Nirav Jimudia:** Sir, small clarification before I join back in the queue. So, have you done any catalyst change in the first half? Or are we planning to do any catalyst change in the second half?

**Pramod Bhandari:** We have done it in April, May, June for 1 plant. And for last quarter, we have not done any change in catalyst.

**Nirav Jimudia:** So, are we planning to do in second half?

**Pramod Bhandari:** I think we may plan, but right now, it has not been decided. It may spill over to next year also or maybe the last quarter of this year.

**Moderator:** We'll move on to the next question. That is from the line of Aditya Khetan from SMIFS Institutional Equity. Please go ahead.

**Aditya Khetan:** Sir, on quarter-on-quarter basis, there is a decline of 14% in top line. If you can quantify how much was it from the volumes and how much was it from the realization?

**Pramod Bhandari:** So, actually, it's 4% to 5% on account of volume, around 4% to 5% on account of low realization of the maleic and balance is the pricing of phthalic.

**Aditya Khetan:** Sir, volumes was how much, sir, you said?

**Pramod Bhandari:** 4% on account of the volume and around Rs. 9 crore is on account of the low realization of maleic and balance is the pricing of phthalic.

**Aditya Khetan:** And sir, lower volume is primarily because of decline in demand in some of the sectors or like what was the reason for decline?

**Pramod Bhandari:** Not exactly. Actually, because of some logistic issues, we were not able to supply at the end of September. So, inventory, if you look at September, generally, our inventory is 1,000 or 2,000 tons. In September, it was around 6,000 to 6,500 tons. The volume was slightly lower.

**Aditya Khetan:** On to the other expenses, you mentioned about the rise into the power cost, but it seems that the power cost is going down when we compare it on a standby basis.

**Pramod Bhandari:** You don't compare power. You need to look at the energy cost.. We hardly use any power because power is used only when we take the shutdown. And it is on a standby basis. We use

the internal steam for the purpose of generating power and we use fuel oil for the purpose in the rainy season. So, if you look at energy cost, there you will be able to see that around Rs. 4 crores higher.

**Aditya Khetan:** Around Rs. 4 crores higher.

**Pramod Bhandari:** Rs. 3 crores to Rs. 4 crores, which is generally the case in the rainy season. It's always all rainy season has a similar cost structure.

**Aditya Khetan:** So, we can take the last quarter run rate as the normal for the coming quarters like Rs. 40 crores?

**Pramod Bhandari:** Correct.

**Aditya Khetan:** Sir, on to the ortho-xylene prices, so you might be noticing that there is a sharp uptrend into the prices of ortho-xylene, which has actually squeezed down the spread of PAN and crude oil. I believe that you had mentioned that so there is some temporary shutdown, which has been taken by Reliance due to which there was a temporary crunch into the market of ortho-xylene. So, has the situation been normalized? Or what is the current situation?

**Pramod Bhandari:** Yes. It has been normalized now. Now we are getting the regular supply. And of course, the spreads compared to the last quarter, \$200, \$250 has slightly moderated because of the geopolitical issues in the Europe because end industries, there are pockets of the industries which are supplying it to China or the European side, that has impacted. So, from their side, there is slightly moderation in demand.

**Aditya Khetan:** But the spreads have come down as compared to the quarter-over-quarter basis.

**Pramod Bhandari:** Yes. Compared to the previous quarter Q1, Q2 spread has slightly gone down.

**Aditya Khetan:** But they are as far as it's a normal range of \$250 per ton I assume.

**Pramod Bhandari:** Right now, range is around \$150 to \$200 compared to earlier it was \$200 to \$240. It's moving between \$150 to \$250 for last 6 months.

**Aditya Khetan:** And on to the DEP front, sir, can you provide the top line figure as you have provided for the last quarter?

**Pramod Bhandari:** . Rs. 17 crores to Rs. 18 crores for the quarter. I think if you look at the presentation, we have already provided that. It's uploaded, yes.

**Aditya Khetan:** Sir, just 1 last question. Sir, by FY '25, you're planning some sort of 30% of the non-phthalic business. But considering now we are expanding into PAN only, that would come by FY '24. So, this 30% target, can it be achievable considering that, as on date also, we are at around 8% to 9% only?

**Pramod Bhandari:** Yes, yes, it is easily achievable, provided we are implementing the project what we are planning for. Right now, we can't discuss it because it is still to be approved by the Board.

**Aditya Khetan:** So, we are confident so we can take that to around Rs. 430 crores.

**Pramod Bhandari:** Yes. That is the target we have set for us. It may be higher than that. It may be slightly lower than that, but we are completely focused to take our revenue from other products around 25% of the total revenue. And long-term target is to achieve 50%.

**Aditya Khetan:** Long-term target is to get to 50%.

**Pramod Bhandari:** Yes.

**Moderator:** The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

**Rajesh Jain:** I have a few questions. My first question is, is it possible to know how much top 5 and 10 customers contribute to the sales?

**Pramod Bhandari:** I don't have it readily available, but I can give you industry-wise. The paint, plasticizers contribute around 40% to 45%. Pigment, PVC are around 10% to 15%. And then balance 30% is specialty chemical, agrochemical, UPR and others.

**Rajesh Jain:** That you're saying sector-wise. I was asking from the customer. So, that you don't have off the hand.

**Pramod Bhandari:** Yes, I don't have off the hand.

**Rajesh Jain:** No problem. Sir, my next question is regarding this sector contribution. Like how was the contribution from paints, pigments, plasticizer, let's say, 5 years back, and now that the other segments also started taking our phthalic anhydride, how does it look 5 years down the line? Anything you have an idea?

**Pramod Bhandari:** So, historically, paint, plasticizers were the main contributors. Now it has moved to around 60% to 65% Because a lot of Indian companies are going into the downstream specialty chemicals, agrochemicals, UPR.. In fact, a couple of new segments are also entering into, now like the specialty films or somebody is also producing some engineering plastic, which is used for the Boeing. So, there are lot of new segments are coming up. Like now India is getting into full revamping the infrastructure with the trains and all that. You will see a lot of demand in the polymer side also coming up in future.

**Rajesh Jain:** Sir, like you said, let's say, 5 years back, if paints and plasticizers were contributing 90% to the sales.

**Pramod Bhandari:** It was 60%, now it is 40%.

- Rajesh Jain:** Now 40%. So, how will it look, let's say, 5 years down, will it come to, let's say, 30%?
- Pramod Bhandari:** Not exactly because a lot of guys in the paint are also setting up the big capacity. You heard that Asian Paints is also expanding and new players are also entering into it, like Indigo Paints, JSW Paints and Grasim probably next 1 or 2 years, they are setting up the plant equivalent to Asian Paints. So, paint continues to grow because they are expanding and India continue to have a good demand around 10% plus growth. New segments are added. It's in a similar way. We are seeing the growth in the electric vehicle vis-à-vis the petrol and diesel. Petrol and diesel are continue to grow. Electric vehicles are kept on increasing. But overall percentage-wise, they'll remain small.
- Rajesh Jain:** So, you mean to say the contribution from the erstwhile segments will continue to hover around 30% to 40%.
- Pramod Bhandari:** Correct. However, you need to see that how India shape up in terms of their infrastructure. If India decided to change the entire infrastructure of underground, where we use the water-based pipeline which is corroded around 40, 50 years old pipeline. If India decided to change to UPR, if India decided to change to FRC-based polymers for the purpose of all the new metros and all buildup, then you'll see a very good demand in that side. That is the way you can change it in quantum jump rather than in percentage.
- Rajesh Jain:** Fair enough. Sir, this UPR, like I think you had mentioned for paints only 2.5% is used, this phthalic anhydride, how much is used for UPR, sir? Any data you have?
- Pramod Bhandari:** UPR, it depends upon the various polymers around 25% to 35%.
- Rajesh Jain:** So, that means in 1 kg, , so this will be around 0.3 kg. That's what you are saying.
- Pramod Bhandari:** 0.2 kg to 0.3 kg, which depends upon what type of polymer you are using.
- Rajesh Jain:** I agree, but whereas in the paint, it is only 2.5%, correct?
- Pramod Bhandari:** Paint 2.5%, plasticizer 35% to 55% and polymer is around 20% to 40%. Depends upon what type of you are making.
- Rajesh Jain:** 20% to 40%. Okay. Sir, my next question is, so we are supplying to so many different sectors. Are the margins are same across the sectors? Or it may be differs from one customer to another?
- Pramod Bhandari:** Not exactly. Sector-wise, it's almost same.
- Rajesh Jain:** Sir, my next question is about the CAPEX, the PA-5. Sir, my first question is regarding the CAPEX amount, like we are spending around Rs. 350 crore to put up a 53,000 brownfield capacity. See compared to PA4, where we have spent around Rs. 320 crore to Rs. 330 crore, so this looks okay because of the increase in the other materials. But our competitor is putting up

this 90,000 metric ton capacity greenfield one at around Rs. 650 crore to Rs. 700 crore. So, see, you had mentioned earlier the technology, the reactors are more or less the same. So, why there is so much increase in cost of the CAPEX for us compared to them?

**Pramod Bhandari:** So, I will not be able to comment what competitor is saying because if I G is setting up a new plant of phthalic of, , 53,000 tons, in greenfield it costs Rs. 600 crores to Rs. 650 crores. So, we are setting up at Rs. 350 crores. That means it is Rs. 200 crores lower because we don't need land, all power, steel utilities are already available. So, the entire infrastructure is available, that's why our cost is Rs. 350 crores.

If somebody else is able to set up. We have all equipment, technology, catalyst, everything is there. We don't compromise our cost, which we have mentioned Rs. 350 crore is the best available cost. With the same technology equipment, you set up any other place, it costs Rs. 600 crore plus.

**Rajesh Jain:** Fair enough. Sir, another question about the CAPEX only. This we had announced exactly in Q2 FY '22, putting up this PA-5 project, and we are taking more than 2.5 years to commission this brownfield. So, they are saying greenfield one they will be putting up within 3 years. So, why we are taking more time to put up this plant?

**Pramod Bhandari:** We are taking 24 to 30 months. And when we are saying March '24, which is end of 30 months, that is the last date. We will be able to start much before that, maybe 2 months or 3 months. And when we are talking about setting up a brownfield expansion, it's not about the capacity to execute. You can set up like entire plant in 6 to 9 months. It's always about the long lead item, how much time it will take to come from the day you order. So, that is the reason. Our time line when we have mentioned 24 to 30 months is the best period available.

**Moderator:** The next question is from the line of Pawan Nahar, an individual investor. Please go ahead.

**Pawan Nahar:** So, my first question is, as we see things in November, I mean, 40 days have gone for this quarter, what do you think, what is your best guess for spread compared to Q2?

**Pramod Bhandari:** I think the spread is still moving around \$150 to \$200. So, it is not ideally comparable with the Q1 and Q2. You can always talk about phthalic because the maleic price has gone down,. Phthalic almost remain in the same level. But maleic has gone down from Rs. 150 to below Rs. 100. So, it's a combination of all. We are making good margin in the DEP because DEP is still at Rs. 127, compared to phthalic which is Rs. 110, . It's not in absolute terms, you can decide only with the phthalic margin, how much money we are generating.

**Pawan Nahar:** Sir, sorry, if I've understood right, , you can correct me, phthalic is broadly the same in terms of spread. It's maleic, which has dropped. Is that understanding correct?

**Pramod Bhandari:** Yes. Maleic has dropped by 35%, from Rs. 150 to below Rs. 100. But for us, the advantage of the maleic is, there is no raw material, which is involved. So, whatever is the sale is directly

translated to EBITDA. So, compared to the last quarter, which was Rs. 27 crores, for the same quantity, we have around Rs. 18 crores to Rs. 19 crores for this quarter.

**Pawan Nahar:** Second question what I wanted to ask was maleic can also be made by the alternate route, which is n-butane blend, right?

**Pramod Bhandari:** Correct, n-butane, correct.

**Pawan Nahar:** So, of the global maleic consumption of production, how much would be that route, the n-butane?

**Pramod Bhandari:** I think 96% to 97% is on n-butane route.

**Pawan Nahar:** I was thinking actually that gas prices have gone up so much. So, logically, there may have been some shutdowns, some production impacted from the alternate route and you all would have gained. But somehow I see that the assumption was wrong.

**Pramod Bhandari:** Actually, what happened is there was a scarcity of maleic between FY'21 to FY'22 when maleic price had gone from Rs. 110 to Rs. 300. Now again, it has come back to Rs. 110. It has gone to 2 to 3x during the period when there was scarcity of maleic. There was shutdown of plant. There were logistic issues. Now a lot of plants have come back. So, maleic price has actually moderated. Generally, if you look at the history, maleic is generally available at Rs. 600 crore to Rs. 800 over and above the n-butane price.

So, it has gone to \$1,000 over and above butane price, again corrected to \$600 to \$650. However, because you are using n-butane, then it is very difficult to make the money at the current prices. But for IG, that is not a restriction. We are manufacturing maleic because it's an opportunity available with us from the wash water of phthalic. Correct way to manufacture the maleic is the n-butane route.

**Pawan Nahar:** And would we consider building a plant somewhere where gas is available for cheap?

**Pramod Bhandari:** We are evaluating the opportunity, right now under discussion. So, it won't be correct for me to comment at this juncture. I think once we finalize that, it will automatically be in public domain.

**Pawan Nahar:** So, on that same line, I mean, not about you, generally, what would be the cost of setting up a 40,000-ton maleic anhydride unit?

**Pramod Bhandari:** 40,000 is not available, generally it's 50,000 or 60,000 tons.

**Pawan Nahar:** Let's say 50,000 or 60,000, what should be the cost?

**Pramod Bhandari:** It depends on the location. It ranges between Rs. 1,000 crores to Rs. 2,000 crores, depend on the location where you are setting up.

**Pawan Nahar:** Rs. 1,000 crores to Rs. 2,000 crores. So, we have to assume it has to be in the U.S.A. because your gas costs there will be more competitive. So, what would be the cost?

**Pramod Bhandari:** Not exactly because U.S. gas is competitive, but there is a big issue in terms of environment and the logistics. So, it's all dependent upon where you are setting up. In Middle East, you can set up at Rs. 1,500 crores, Rs. 1,600 crores. In India, you can set up at Rs. 1,000 crores to Rs. 1,200 crores, but gas is not available. In U.S. gas is available, but the environment and other operating cost is high. So, you need to evaluate plus and minus from all the locations and then decide. And ultimately, you need to be near to the raw material source or customer.

**Pawan Nahar:** True. The other question is I'm looking at your 15-year plus history. And what I see is that the business profile up to FY '16, so 2007 to '16, was I mean, I would say, not good. And rightly so you are struggling to expand or you did not expand. From FY '17 to till date, right, there is a significant improvement where like basically on an average, for every Rs. 100 of CAPEX, you are making Rs. 25 of EBITDA, right?

**Pramod Bhandari:** Correct, yes.

**Pawan Nahar:** That happened, one is that after FY '17, it is just not the COVID impact that I see in the business. , something has happened from FY '17. And the second thing is that your competitor, which is on a stand-alone basis, so excluding the maleic unit overseas has always been almost every year more capital efficient than you. I understand that we've done a German machine, right, which may have a longer life. So, my question is twofold. One, is that what is that change after FY '17, which has driven this kind of payback if I may use the word? And how sustainable you think it is?

**Pramod Bhandari:** I understand your question. There are 2 things which changed after 2017. So, when you are operating at below 1 lakh capacity, you're not able to get the operating efficiency and yield advantage. So, once you cross 1 lakh, which we have effectively done in FY'16, FY'17. So, once you cross 1 lakh, or 2.20 lakh, the operating efficiency has gone up.

Second is your fixed cost, which is now divided earlier in 2 plants. Now it's 4 plant. Third, maleic unit was acquired by I G in 2017. So, typically when we were making maleic around 1,500 tons, now it has to around 7,000-8,000 tons. So, that has contributed in a big way because today we are operating at Rs. 100 crores of maleic sale, that sale directly contributed to your EBITDA. There is no raw material cost. Now if we are doing the DEP and benzoic acid, first, the operating efficiency of phthalic plant, which is from 2 to 4 and from 50,000 capacity to 222,000, scale has changed.

Second, the product maleic and benzoic acid and DEP, which has contributed around Rs. 170 crores to Rs. 180 crores on an annualized basis, that 2 parameters and the reduction in the overall

cost because once you operate at a scale, your overall cost has gone down. So, these 3 parameters have changed history compared to last 15 years in last 4 years.

**Pawan Nahar:** I just want to make sure I have got it right. So, let's leave maleic because you make it from wash water, right? What percentage of your own phthalic is used for the other assets and the products that you mentioned?

**Pramod Bhandari:** DEP, which we are producing, where we use 38% to 40% of the phthalic. That's all.

**Pawan Nahar:** So, 38% to 40% of your phthalic production is consumed in-house?

**Pramod Bhandari:** . Whatever DEP we are manufacturing, in that, we need 40% of phthalic.

**Pawan Nahar:** So, that is then not a significant amount.

**Pramod Bhandari:** That is second point. Third point, the multi-industry usage. Earlier phthalic was limited to 2 to 3 industries. Now it is being used in more than 50 to 20 industries. As India get into the new chemistry, specialty chemicals, agrochemicals, UPR and India move deeper into the infrastructure building drive, you will see more and more phthalic usage will come. So, the diversification in the industry also plays a big role in terms of establishment of the good amount of margin.

**Pawan Nahar:** The related question is we are seeing in India, both key players expand capacity. Anywhere else in the world are you seeing capacities being added?

**Pramod Bhandari:** I think generally, there are some additions we have seen, but that is mainly from account of the debottlenecking. Otherwise, it's India which is driving the growth because India gets to build the infrastructure for next 20 to 30 years.

**Pawan Nahar:** What is your sense in terms of the spread, let's say, going ahead versus the last 5, 6 years?

**Pramod Bhandari:** So, my sense is India in next 7 to 8 years, it's my personal opinion, not the company opinion, will cross the demand of 1 million ton. If India needs to grow their infrastructure, then the UPR, when we are building the bridges, dams, building the metros and everything India need to build, every expansion in infrastructure need phthalic. So, I assume that personally that India will continue to grow between 6% to 8%. And by 2030, the demand has to be near to around 1 million tons.

**Pawan Nahar:** One more question. How much time does it take to set up a maleic unit?

**Pramod Bhandari:** It's 24 to 30 months.

**Pawan Nahar:** So, like I'm just not able to understand how you will get your 25% or 30% or 20% of revenue by FY25?

**Pramod Bhandari:** I never told you that is because of maleic.

**Pawan Nahar:** No, no. Sorry. Yes, you did not. I'm trying to understand where will that come.

**Pramod Bhandari:** It is just you have to wait for some time.

**Pawan Nahar:** You are already at FY '23 end.

**Pramod Bhandari:** Yes.

**Pawan Nahar:** Right. So, unless it is an acquisition --

**Pramod Bhandari:** Still we have 2, 2.5 years. And that is the vision statement we are trying to achieve this.

**Pawan Nahar:** And generally, when you make whatever investments that you plan, what is the hurdle rate or payback duration

**Pramod Bhandari:** Typically, whenever we are investing, we need to have IRR of more than 15% and the payback period of less than 5 years. That is given for any project. However, there are some projects where we can see the long-term sustainable benefit for 40 or 50 years or you have a monopolistic practice. In that case, payback period may go to around 6, 7 or 8 years also. But generally, 15% and 5 years is the key.

**Moderator:** The next question is from the line of Chirag Vekaria from Budhrani Group. Please go ahead. Mr. Chirag, your line is on the top mode. Please go ahead.

**Chirag Vekaria:** Just wanted to get from DEP perspective, the turnover was Rs. 17 crore to Rs. 18 crore for the quarter?

**Pramod Bhandari:** Correct. Rs. 18 crore.

**Chirag Vekaria:** In terms of EBITDA margins, what are the margins here in DEP?

**Pramod Bhandari:** DEP is actually making 12% to 13% on gross level and net level around 5% to 6%. But this is over and above phthalic.

**Chirag Vekaria:** In terms of number for Rs. 17 crore, what would be the EBITDA, sir, roughly, if you can share it?

**Pramod Bhandari:** 12% to 13% is the gross margin because in DEP, the EBITDA is back. So, the gross margin at product level is around 11% to 12% and net margin is around 5% to 6%.

**Chirag Vekaria:** 5% to 6%. And sir, if you can share some insight on the spread, I mean, until the geopolitical situation, do you think spreads will be under stress? How do you see it, sir?

**Pramod Bhandari:** I think geopolitical is one part because if it impacts the industries in across the globe, which are the user of the chemical from domestic market, you will see moderation in the overall margin, which I believe will be running between \$150 to \$250.

**Chirag Vekaria:** And sir, you said something about inventory issues. So, what was that, sir? At the beginning of the call.

**Pramod Bhandari:** No, no. I was just mentioning that the quantum of the sales which we have made for the last quarter was around 2,500 tons less. And we have some inventory lying over because of some logistic issue. Now it is sorted out, and then there is a free flow of the sales.

**Moderator:** The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

**Rajesh Jain:** Sir, when we had commissioned PA4, other than due to the operating leverage, having used the latest technology for the PA4 plant, so there was some 2% to 3% increase in the EBITDA margins. So, when you commission PA-5, can we expect same type of, I don't know, maybe 2% or 3% increase in the margin?

**Pramod Bhandari:** So, that EBITDA margin is a combination of your margin in phthalic plus the extra maleic anhydride and benzoic acid you've generated. And third, the fixed cost is divided among 5 plants compared to 4 plants. This is the reason of the incremental EBITDA margin.

**Rajesh Jain:** Sir, but also since you're using the latest technology, maybe the efficiency is better.

**Pramod Bhandari:** Fixed costs will be divided in the 5 plants compared to 4 plants.

**Rajesh Jain:** Correct. So, what is the minimum we can expect increase in the margins?

**Pramod Bhandari:** I think it will not be correct for me to talk about the margin. I can simply say that the payback period we expect is less than 4 years.

**Rajesh Jain:** Fair enough. Sir, in the last call, you had mentioned you're going for the installation of solar panels at the Taloja plant. So, I just wanted to know what is the investment for this project? And what are the savings for the company?

**Pramod Bhandari:** The project cost is around Rs. 2 crores to Rs. 3 crores. It has been installed. And since the government has changed the policy, so whatever electricity we consume in terms of total unit, the units which we are generating through the solar plant are deducted and balance is billed on I G so there is a direct saving on the per unit of the electricity generated through solar at a commercial rate, which is being supplied to I G.

**Rajesh Jain:** Okay. So, what could be the savings if you have to look in on an annual basis?

**Pramod Bhandari:** It will be between Rs. 50 lakh to Rs. 1 crore per year

**Rajesh Jain:** Rs. 50 lakh to Rs. 1 crore.

**Pramod Bhandari:** Yes, because we hardly use electricity. We generally use steam to power the plant.

**Rajesh Jain:** I know. You had mentioned that in the earlier call.

**Pramod Bhandari:** But it is good, payback period is less than 3 years for that project.

**Rajesh Jain:** Very good. Sir, my next question is if you could tell us what is the capacity utilization of PA in quarter 2?

**Pramod Bhandari:** The capacity utilization remains same, 89% to 91%, same.

**Rajesh Jain:** So, that means whatever the reduction in volume you had mentioned is purely because you could not dispatch. ....

**Pramod Bhandari:** Only 2,000 tons. We were actually above 51,000. Sometimes we do 53,000, 54,000, sometimes 51,000, it keeps on changing.

**Rajesh Jain:** So, from the regular 51,000, it had come down to 49,000.

**Pramod Bhandari:** No. It is above 50,000 only. Last quarter was 52,000 to 54,000. Now it is around 50,000-plus. Because our run rate typically is 16,000 to 17,000 per month, that is the rate.

**Rajesh Jain:** So, 16,000 to 17,000 means, so it will be around 48,000 to 51,000, right?

**Pramod Bhandari:** Correct.

**Rajesh Jain:** So, that means in Q2, we have done around 48,000 to 49,000.

**Pramod Bhandari:** Yes. Let me correct. Q2, we have 50,000 plus. In Q1, we have 53,000. So, there are gap between the Q1 to Q2. That's all, around 2,000 tons. But having said that, our run rate is 16,000 to 16,500. So, above 50,000, we are in the same range.

**Rajesh Jain:** So, now for the coming Q3 or Q4, so you expect the same demand and do you expect the same run rate to continue?

**Pramod Bhandari:** I think in terms of production, it will be around 16,000 per month if we have decided to take any shutdown for changing catalyst, then you will see it will be around 45,000 to 46,000.

**Rajesh Jain:** Sir, I'll put it another way. I'm not asking from the production perspective, I'm asking from the demand, you are seeing the demand has not moderated.

**Pramod Bhandari:** Demand is generally there because India still imports 8,000 tons per month.

- Rajesh Jain:** Correct. But sir, compared to September, now we are in November, is there any reduction in price of phthalic anhydride?
- Pramod Bhandari:** No. Phthalic price has gone down as low as \$100, right now prevailing between \$110 to \$115. So, it's a combination. When I'm saying phthalic price gone down, it doesn't make any difference. Ultimately, how it has been compared to the raw material.. So, it has gone down in line with the OX prices. Now Ox has gone up, phthalic has also gone up.
- Rajesh Jain:** Sir, did we have any inventory loss during Q2?
- Pramod Bhandari:** During the last quarter? Yes, there was a small amount of inventory. I'm not directly calculating, but around Rs. 3 crore to Rs. 4 crore of the inventory, which has gone into the system.
- Rajesh Jain:** Now that you're saying in Q3, the OX has gone up.
- Pramod Bhandari:** It's not particularly about pinpointing the inventory, but when we're buying asset, say, when buying OX, let's say, Rs. 90 and you plan to sell at Rs. 105, and suddenly, the Rs. 90 inventory, which you are carrying become Rs. 85 and then you need to sell at Rs. 100, so that Rs. 5 adjustment you need to do it in your inventory value.
- Rajesh Jain:** That's right. Sir, lastly, you had said that there is a reduction in the margin of maleic anhydride, any particular reason?
- Pramod Bhandari:** I think a lot of plants were shut down. They have come up in the market. Second is the logistic issues because of extraordinary unprecedented rise in the maleic anhydride prices from \$110 to \$250 to \$300, that has corrected, I think, long back. Now it is moving between \$90 to \$110.
- Rajesh Jain:** Okay. So, now assuming that the phthalic there will not be much more any increase or decrease in price and maleic price also moderated, can we expect around a run rate of Rs. 550 crores of revenues till you commission the new project?
- Pramod Bhandari:** I think that is all dependent upon the pricing. If the prices remain same, we expect Rs. 500 crores plus revenue. If prices go down, it will be lower. But I think it's all boil down to the final margin. Price doesn't make any difference, even at Rs. 450 crores also you can make the EBITDA higher than Rs. 100 crores. So, ultimately margin is better. Sales is only the number in terms of the total value and volume.
- Moderator:** The next question is from the line of Pawan Nahar, an individual investor. Please go ahead.
- Pawan Nahar:** What I noticed is that your debtor days have been going up consistently year after year, right? This has led to lower conversion cost into operating cash flow of the profit. So, if you can explain what is the new normal?

- Pramod Bhandari:** So, when we are exporting, we need to give 90 to 120 days credit. However, in domestic market, we are selling around 50% to 60% in cash or LC and balance 40% to 50% in open credit. So, number of days debtors has gone up, we are aware of that because there are some recovery, which is also pending from some of the players which has been achieved now.
- We have started some facilities in our bank through which we can discount the bills of a particular party directly. We use that facility as and when we need cash. If we don't need cash, we don't discount it. So, that's why you look debtor high, but I can discount that Rs. 30 crores in 1 day. But we don't do it.
- Pawan Nahar:** I understand. Discount is as good as borrowing. I understood.
- Pramod Bhandari:** So, discount is as good as cash, but we decided not to do.
- Pawan Nahar:** No, that's fine. That's good. So, my question still is you said you need to give 90 days of credit for exports, right?
- Pramod Bhandari:** 60 to 90 days, yes. That is the standard practice.
- Pawan Nahar:** Sorry, and 60 in domestic or 50?
- Pramod Bhandari:** No. In domestic, we generally sell in cash. Some cases, we give 30 to 60 days credit.
- Pawan Nahar:** And how much is exports as a percentage of total for you?
- Pramod Bhandari:** 12% for last quarter.
- Pawan Nahar:** Then if half the domestic business is generally debt, only 10%, 12% is sold on 90 days, your debtors are like 67 days, as I see?
- Pramod Bhandari:** No. I will repeat again. 50% of debtor are sold on cash where we get the money in 7 to 15 days.
- Pawan Nahar:** That is coming off sales, 50% of that..
- Pramod Bhandari:** 50% of that is domestic sale. I'm talking about domestic sale. Balance 20% to 30% is on LC and bill discounting whenever we need money we can get a discount and 20% is on open credit.
- Pawan Nahar:** So, what I'm again trying to repeat is if you do that math, 67 days seems very, very high.
- Pramod Bhandari:** So, because we have not discounted. That is what my point is.
- Pawan Nahar:** What happens is for 50 days, you are doing 0, right? No credit.
- Pramod Bhandari:** No, 10 to 15 days, because generally, 7 days is the delivery period and 7 days is the recovery period.

- Pawan Nahar:** And this recovery that you mentioned, how much is the amount? And has it come in Q2,
- Pramod Bhandari:** Yes, yes, all in time. The debtors which you have seen is on September, it has been recovered because there was some pain in the pigment industry, so there was a delay, now it has been recovered. Why we have not discounted because we have sufficient cash on the balance sheet. As on September, it is around Rs. 330 crore cash in the balance sheet.
- Pawan Nahar:** That would be the gross number. How much is the net number?
- Pramod Bhandari:** Net of debt?
- Pawan Nahar:** Yes.
- Pramod Bhandari:** Just remove Rs. 116 from Rs. 336 crores, around Rs. 220 crores.
- Pawan Nahar:** 220 crores is the net cash, okay. And this 67 will not come down, sir? What is your understanding?
- Pramod Bhandari:** Ideally is 60 to 62 days. 67 is higher side. But I think from next quarter onwards, we will see 60 to 61 days.
- Pawan Nahar:** And do you get your raw materials on credit?
- Pramod Bhandari:** Yes.
- Moderator:** The next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead
- Yogesh Tiwari:** I just had 1 question. So, in the last conference call, there were some discussion about we were looking at some land acquisition for a new plant. So, any update on that you were planning some facility?
- Pramod Bhandari:** Nothing, it's under process right now.
- Yogesh Tiwari:** But we are moving in that direction, right? We are looking for a new facility out of the green facility.
- Pramod Bhandari:** Right now, we have 4 to 5 acres available adjoining to our existing facility, so that we will be utilizing first. And then for all future projects, we are looking for the land parcel. I think that is under evaluation. Once we finalize that, then we will be able to communicate.
- Yogesh Tiwari:** And sir, that 4 to 5 acres, which we have will be mostly for plasticizers?
- Pramod Bhandari:** So, I have not commented which project is. That land is available. That is what my point is.

- Moderator:** The next question is from the line of Aditya Khetan from SMIFS Institutional. Please go ahead.
- Aditya Khetan:** Sir, the PA-5 expansion, we have started commissioning on to our existing factory.
- Pramod Bhandari:** Correct.
- Aditya Khetan:** So, this Rs. 60 crores of CWIP, which we are witnessing as on date on the balance sheet.
- Pramod Bhandari:** That's PA-5.
- Aditya Khetan:** Would you capitalize some amount of that expansion?
- Pramod Bhandari:** No. WIP is reflecting the project in progress, which is for PA-5. Rs. 60 crores is the money which has already been spent and then LCs and others are open, which has not been reflected in financials. So, Rs. 60 crores is purely for PA-5 project.
- Aditya Khetan:** Sir, this is for PA-5, okay.
- Pramod Bhandari:** Correct.
- Aditya Khetan:** So, apart from this, you mentioned to the last participants also you are having 4 to 5 acres of land available, which is excluding which we are doing expansion onto the PA-5 side?
- Pramod Bhandari:** Absolutely right.
- Aditya Khetan:** And sir, on to the exports part, so considering if we move more towards the downstream derivatives, so will that be focused more on the exports part and that would increase the export share in the total revenues?
- Pramod Bhandari:** So, I think it all depends upon what type of products you are producing. If you are producing some, say, plasticizer, then domestic, if you are producing some polymer, then maybe 50-50. So, it all depends upon the type of product. But generally, we keep the option of export and domestic open, and that is the reason we set up the plant nearby by the port.
- Aditya Khetan:** And demand for PAN, you have mentioned that, so that is quite healthy. But sir, when we are talking to other chemical companies, so they are stating that even the agrochemicals, the dyes and pigment, even to some extent pharmaceuticals are witnessing some sort of demand setback.
- Pramod Bhandari:** There are moderation in the demand because there are some challenges in the downstream industry because there are some challenges in the European and that side whoever is supplying, like pigment is generally supplying to China and Europe. So, there are challenges in that side.

We have seen the moderation of demand in pigment segment. Paint is doing well. Plasticizer is doing fine. Pigment, there are some challenges. Anyhow, there are multiple industries we supply. All industries can't perform well all the time.

**Aditya Khetan:** So, sir, is there some news of any players into the Europe has taken permanent shutdown or closure of capacity for PAN?

**Pramod Bhandari:** I think the only thing we heard is that BASF decided to put 50% of their capacity from Germany to China in view of the restriction in supply of gas. That's all. But there are challenges in Europe because the cost of the natural gas and electricity has gone 7 to 8x. So, it's not easy for them to operate.

**Aditya Khetan:** So, this can be an opportunity for us to supply more to Europe and capture the market share?

**Pramod Bhandari:** It is in 2 ways because the opportunity is if you can produce the product, which is manufactured by Europe, India can be not only China plus 1 but Europe plus 1. You can set up the plant here and supply to the European counterpart. Having said that, if you are a supplier to European industry, and if they are not operating, then you will be in slight trouble. So, it's 2 ways. If you can set up, if you're supplier of raw material to the European one, then you will face the challenge. If you are supplying something which is consumed by European, then you are in a better position.

**Aditya Khetan:** So, we are supplying to Europe, sir?

**Pramod Bhandari:** We don't supply. We have our exposure to the Middle East. We are supplying 10% to 15% all of our exports in Middle East, not Europe because we produce in flakes, it's in powder, Europe consume phthalic into the liquid.

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

**Pramod Bhandari:** With this, I would like to conclude the call. The only message I need to give is just look at the phthalic and the type of industry, it's just beginning of the era of infrastructure buildup in India. It's a long way to go to highway to bridge to dam to metros. A lot of infrastructure activities expected to come up in next 20 years.

We expect there may be a moderation maybe for 1 or 2 quarters. We expect phthalic demand to continue to grow next 15 to 20 years. Having seen the good polymers as well as the UPR as well as the pigment, specialty chemicals, they all will do well in long run.

In short term, there may be some hiccups. But on long run, the sustainable growth of India is directly linked and phthalic demand is directly linked with that. With this, I thank you everyone else. And if you have any query, get in touch with SGA or directly send a mail to us, we are happy to respond to you. Thank you very much. Bye.



*IG Petrochemicals Limited*  
*November 11, 2022*

**Moderator:** Thank you. Ladies and gentlemen, on behalf of IG Petrochemicals Limited, that concludes this conference call.