



“The Dharamsi Morarji Chemical Company Limited (DMCC). Conference Call” to discuss proposed scheme of Arrangement / Amalgamation with Borax Morarji Limited (BML)

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Dharamsi Morarji Chemical Company Conference Call, hosted by PhillipCapital (India) Pvt. Ltd. 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 management address concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samarth Sanghvi from PhillipCapital (India) Pvt. Ltd. Thank you and over to you, sir.

**Samarth Sanghvi:** Thank you, Janis. Good afternoon to all the participants to the Dharamsi Morarji Conference Call. With us on this call today is Mr. Bimal Goculdas who is the Head of the Company, CEO of the Company. We have along with him Mr. Gokhale and Mr. Sundaram.

I would like to now hand over the conference to the management for some opening remarks, and then we could head on for the Q&A session. Thank you.

**Bimal Goculdas:** Good afternoon, everybody. Thank you for joining the call. I am Bimal Goculdas and with me are Mr. Gokhale and Mr. Sundaram from the legal side and Company Secretary as well as the CFO.

To start, I would like to give you a little background about both the companies. Some of you may know this already. In that case it would be a bit of a repeat, but bear with me please.

The Dharamsi Morarji was established a little less than 100 years ago, 1919 to be exact. It started the first sulfuric acid plant in India. We still make sulfuric acid, but our focus is now much more towards specialty chemicals based on sulfur and also based on ethanol. For most of the existence of the company, we were known as a fertilizer company and we had to change our business line, in fact, we were forced to change our business line because of the government policy which was adverse for the type of fertilizer we made and there was preferential subsidy towards other fertilizers. It was not at all a fair market situation. We decided to exit fertilizers completely, today we do not make a single kilo of fertilizer on our own, while at one-time we made over 0.5 million ton and we were in fact the largest in Asia in the type of fertilizer we made which was the single super-phosphate (SSP).

Today our focus is on value added chemicals. We start with burning sulfur, which is a byproduct of refinery operations, (oil refineries), to make sulfuric acid. From that we make various sulfonating agents like Oleum Chlorosulfonic Acid and liquid Sulfur Trioxide. And from these we make downstream specialty chemicals by combining them with different organic products like benzene, phenol, ethanol, etc. Ethanol chemistry is another line we have. Ethanol is again a raw material we source either locally or imported, depending on whichever price is better. India has its own production of ethanol, so that is an advantage for us. And sulfur, as I mentioned earlier, is a byproduct of refinery operation, again, it is locally sourced raw material.

I will take a few minutes also to talk about Borax Morarji. Borax Morarji was in fact setup more than 50 years ago, it has been in existence since 1963 and it was formed as a joint-venture between US Borax, at that time known as Borax Consolidated Limited, BCL, and Dharamsi Morarji. It was a 50-50 JV between DMCC and Borax Consolidated, a UK based company. That joint venture went on well until the late 70s when India became sort of more inward looking and tried to get out all the foreign companies, including Coca-Cola, Ford and other the multinationals. That time the Borax Group decided to exit the JV, and part of the shares were bought by DMCC and promoters and part of the shares were bought by the public. So it was listed sometime in the late 70s.

Borax Morarji is in the business of manufacturing Boron chemicals such as borax, boric acid as well as downstream, including products like zinc borate which is used in making fire-retardant cables, fire-retardant paints and other such applications. Also, we produce disodium octaborate tetrahydrate which is used as a micro-nutrient fertilizer as well as used as a timber preservative. And there are many special grades of boric acid produced, boric acid SQ which has application as a catalyst and in nuclear power, as well as pure grades of Borax including chemically pure and pharmaceutical grade.

So this is the background of both the companies. DMCC as you will know is about Rs. 130 crores turnover, Rs. 120 crores to Rs. 130 crores turnover. Borax is about Rs. 50 crores turnover. And we are hoping that, of course, when we combine the two, we should have beneficial arrangement for all the shareholders. The plant of Borax Morarji is currently at Dahej, and the main plant of Dharamsi Morarji is at Roha. Combining the two we will have a footprint in both the major industrial states, Maharashtra as well as Gujarat. The Borax site has a lot of spare land available, out of the 100,000 plus square meters at Dahej, I think less than one-third is occupied at this time, gives us enough room to expand. The other advantage of course is that Dahej is in the middle of the largest chemical market in India, which is Gujarat. So logistically that is a big advantage for DMCC products as well. And from the point of view of Borax shareholders, you have of course additional resources available from DMCC in terms of finance, in terms of manpower, things like that. So, as a combination, we believe that it will be beneficial for both sets of shareholders.

I would also like to add that the promoters for both companies are common, so there is no particular interest to favor either set of promoters, since they are same in both cases. The valuation was done by an independent valuer on a fair basis and the swap ratio was arrived at, I am sure all of you have seen this scheme of arrangement, but the swap ratio of 2:1 was arrived based on an independent working. It was also vetted by a merchant banker, actually two merchant bankers and that is when we have presented this to the stock exchange and it will shortly go to shareholders and follow the procedure for approval.

The steps for approval are many, it is a long way to go before this becomes reality, the merger. We have to take clearances from shareholders, minority shareholders as well and of course the bankers, creditors of both companies. It is estimated that it would take at least six months to go through.

We have kept the appointed date as April 1st, 2016, since both we have published balance sheets for both companies for the previous year ready and it becomes easier to make this arrangement.

I think I will like to open this up now for questions from anyone on any aspect of the merger, anything that you may like to ask at this time.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah:** I have two questions mainly. First is, in Borax what is the state of the plant we have at Dahej, is it recently built, is it old and can we use it for manufacturing for DMCC? So how can we utilize the current plant and machinery of Borax?

And in terms of cost, what is the immediate savings do we see post-merger?

**Bimal Goculdas:** The Borax plant at Dahej is generally a new plant, it has been built over the last two, three years. Some of the equipment may have been shifted from Ambarnath, but only what was in very good condition was actually shifted. And the entire building and utilities and everything is brand new.

So, you also asked second part of that question which was what can get out of this? Now, we will be continuing with the boron business as well, we are not going to discontinue the boron business. So a lot of the existing equipment of borax will be utilized for boron products. They do have some spare capacity in specialized equipments like spray driers which would be useful for DMCC products, but that is not one of the main advantages for us. What we would see is the entire plant, I mean, the entire site, we are looking at things like chilling plants are available, thermal fluid for high temperature reaction, that is available, steam is available through a boiler, then gas is available from the ONGC pipeline and it is on site already, water is there, the affluent connection is there. So all the common utilities and everything is already available, if we would have to start doing that anywhere else it would take a long time and cost a lot of money. So I am looking at this as an advantage, the availability of the infrastructure rather than specific plant and machinery.

**Dhaval Shah:** So if I were to put it this way that in your FY16 balance sheet I see Rs. 13 crores of plant and machinery. Now, out of this Rs. 13 crores how much would be your common platform which you just mentioned, and the rest would be for Borax specific.

**Bimal Goculdas:** I wouldn't know off hand how to break this up, but I know that the boiler itself would be about Rs. 1 crores, the other common utilities... so maybe 40% to 50% I estimate.

**Dhaval Shah:** 40% to 50% of Rs. 13 crores?

**Bimal Goculdas:** Yes.

- Dhaval Shah:** So you basically saved around 40% to 50% of Rs. 13 crores, so DMCC will not have to put in their extra money?
- Bimal Goculdas:** Correct. And apart from that, what you do not see is also the land leveling things like that, whatever was invested in that part of it. And it is also acquisition time and getting it ready, so time value of money is the other thing to look at. That is an intangible but it is something I want to put it out there.
- Dhaval Shah:** So, currently DMCC is at Roha, now do we intend to shut or do anything, relocate from Roha to Dahej?
- Bimal Goculdas:** No, we would not be relocating as such. What we would do is for any of the newer products we would look at where it would be an advantage to make considering everything, considering the market, considering raw materials, considering logistics, all that. Also permissions for manufacturing, labor costs, availability of utilities, we would have a look at the overall picture and then decide. But the idea is not to move something out of Roha and into Dahej, the decision would be taken for newer products according to that.
- Dhaval Shah:** So, incremental if you were supposed to do any capital expenditure at DMCC, so that will happen all at Dahej only now?
- Bimal Goculdas:** Not necessarily. See for example, if we were to do something connected with chloro-sulfonic acid I may continue at Roha, but if it was something connected to raw materials which are more easily available in Dahej, I would do it there. So it would be a individual decision and not a blanket that we will stop investing in Roha and invest in Dahej only.
- Dhaval Shah:** And sir, what is the immediate cost benefit do we see on the BML?
- Bimal Goculdas:** Right. So, again immediate cost benefit really for DMCC would be in terms of admin and other overheads which I have not quantified as yet, but it is a general thing when these mergers happen where the common costs can get divided. So we are looking at basically administrative cost reductions and things like that.
- Dhaval Shah:** But that number you are yet to kind of...?
- Bimal Goculdas:** Yes, I mean, we would have to look at the overall picture. We would also have to look at what resources we would need, because we are looking to grow. So if we could redeploy the resources and utilize them in growth plan then certainly you may not see a reduction in the number but you will see a quicker jump in the top-line. So depends on how you look at it.
- Dhaval Shah:** And sir now what is the way forward for Borax now, after this merger, does Borax also move on the same line of what DMCC had focused on the specialty side, so what is the way forward for Borax?
- Bimal Goculdas:** Yes, certainly. See, Borax has some strengths in their product line, they are still the number one brand in India in boron products. So everybody wants a Borax Morarji made boric acid or

Borax Morarji made borax deca-hydrate, things like that, the brand commands a premium. So, as I said earlier, we are not going to cut back on that, in fact we will reinforce the brand, we have tried to look at some more products which we can push along with those to the existing customer base. And the idea is to grow in specialty boron products as well. So we can combine, there is a small development team in Borax, we can combine that with the DMCC development team and there is plenty of opportunities in the boron line as well.

**Dhaval Shah:** So sir, if Borax products were commanding premium in the market then why was the company making loss at the operating level?

**Bimal Goculdas:** The thing is, during the shifting we spent a lot more money than we thought we would. Also last year, the China slowdown had a dramatic impact on the performance. What happened is, China being the biggest importer of boron products, their slowdown caused a huge globally glut actually. So people looked at the next big market which was India and global suppliers started literally dumping product into the Indian market, this has resulted in price crash to unprecedented low levels, which is again picking up now, but it affected us at the wrong time when we were already in a bit of a crunch after the expansion and movement.

**Moderator:** Thank you. We have the next question from the line of Jeevan Patwa from Candy Floss Advisors. Please go ahead.

**Jeevan Patwa:** I just want to understand two things, so in a normalized situations, so you are saying basically the prices have crashed because of the China slowdown. So if we go back to the normalized situation, say maybe two or three years back, then what kind of realization, what kinds of margins do you see on the Borax Morarji side on the operating level?

**Bimal Goculdas:** So, in general, there are different types of Borax products as well, there are some like deca-hydrates which would be a commodity, and there are special grades which are of course specialties like boric acid or disodium octaborate tetrahydrate. So the margins would vary from 10% to over 40%.

**Jeevan Patwa:** Is Indo Borax a competitor to Borax Morarji?

**Bimal Goculdas:** Yes.

**Jeevan Patwa:** So Indo Borax has got margins much better than Borax Morarji, so was it because of the fact that you explained the shifting and all that?

**Bimal Goculdas:** Well, yes. The leverage is different for them, a lot of our income is going towards paying extraordinary high rates of interest compared to what we should be paying, which is something which we are going to address soon.

**Jeevan Patwa:** On the gross margin level will it be similar?

**Bimal Goculdas:** Yes.

- Jeevan Patwa:** The gross profit should be similar, right?
- Bimal Goculdas:** Yes. The thing is, I would not want to comment on or compare particularly with Indo Borax but what I can say is the margins, as I mentioned to you the margins are between 10% to 40% for different products can be achieved.
- Jeevan Patwa:** Okay. So Rs. 50 crores is what you are saying is the top-line, so what kind of capacity utilization you are considering in this, Dahej capacity utilization?
- Bimal Goculdas:** You see, what we were looking at when we first shifted to Dahej we were thinking that we will not take the technical grade boric acid plant there, because it was a commodity, prices were down anyway. Now it appears that with a small investment we may be able to produce boric acid and it would be an advantage because there are certain restrictions on imports. So, the capacity utilization again depends on product to product. For example, in Ambarnath the spray drier which is used for making disodium octaborate tetrahydrate the capacity was about 2 tons a day. Here the plant in Dahej has a capacity of 10 tons a day. So certainly the capacity utilization is low because that was built with keeping a 10 year window in mind. For other products like Borax deca-hydrate the utilization may be 60% to 70%, things like that. So, boric acid technical grade today the plant has not been installed, because it was not thought necessary.
- Jeevan Patwa:** Okay. And how much investment would it take for boric acid?
- Bimal Goculdas:** We are still working it out, but the incremental investment would be less than Rs. 2 crores.
- Jeevan Patwa:** And also, if I ask you the question that in say next three, four years without investing further in the Dahej plant, how much the boric side can do for us, the top-line?
- Bimal Goculdas:** I would say that and it is very difficult to make projections because it is a dynamic situation.
- Jeevan Patwa:** No, just looking at the capacity I am saying.
- Bimal Goculdas:** Yes, there would be a potential to go back to Rs. 60 crores, Rs. 70 crores, Rs. 80 crores turnover, in that range, which we have achieved in the past quite comfortably.
- Jeevan Patwa:** But with more specialty you should be able to cross Rs. 100 crores?
- Bimal Goculdas:** Yes, I do not like to make commitment on this or projections on this, but you can see what has been achieved in the past already.
- Jeevan Patwa:** And next year can we see the turnaround in the borax then?
- Bimal Goculdas:** Again, our intention is that that is why we are going ahead with this, but if you look at this year's performance of Borax it is better than the previous year and we hope and we are working towards making next year better.
- Jeevan Patwa:** And the last question, what will be the debt on the combined entity level?

- Bimal Goculdas:** Sundaram, can I give that question to you.
- D. Kalyan Sundaram:** Actually, at the end of December i.e. 31<sup>st</sup> December, 2016 the combined debt is 954 million.
- Jeevan Patwa:** Rs. 95 crores almost?
- D. Kalyan Sundaram:** I can say Rs. 95.46 crores.
- Bimal Goculdas:** So that includes current liabilities as well?
- D. Kalyan Sundaram:** All liabilities.
- Jeevan Patwa:** Okay, so Rs. 95 crores is the total debt.
- Bimal Goculdas:** Not debt, it is not debt.
- D. Kalyan Sundaram:** It is actually debt under current liabilities. What exactly you want, you want only the debt?
- Jeevan Patwa:** The debt portion I am saying, what will be the total debt?
- D. Kalyan Sundaram:** Debt portion is about Rs. 16.8 crores.
- Moderator:** Thank you. We have the next question from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.
- Rukun Tarachandani:** Can you talk a bit about the demand supply scenario on the borax side of products, because you expect a turnaround that is largely because of your operational improvements or are you expecting that the price movement of these commodities will also be much more favorable?
- Bimal Goculdas:** Yes, commodities in general fluctuate up and down, so we cannot base our projections on a one way rise in commodity pricing, that would be not correct. So what we are looking at is operational improvements, we are looking at enhancing production capacities, extra production within the existing capacity and as well as introducing new products. So, for example, I mentioned for boric acid we are looking at a plant, technical grade boric acid, for other products like the disodium octaborate tetrahydrate and the zincborate, we are looking at expanding the market and taking advantage of available capacities.
- Rukun Tarachandani:** And from an incremental capital allocation perspective, how do you see the capital allocation between the two lines now, one is the sulfur and ethanol based specialty chemical line and the other one on the borax side. So incrementally would most of the capital allocation be towards the specialty chem side or would borax side of the business also have a significant capital allocation?
- Bimal Goculdas:** See, in general we would be looking at investing in specialties, whether it is boron or sulfur or ethanol based, it does not matter. So we are not looking it at the main son and the step son or anything like that, we will look at product case by case. If there is an opportunity to make good margin and a boron based specialty, we will invest in that. If the margins are better in some

other products, we would invest in that. So we are evaluating R&D teams on both sides are evaluating several products which would be decided based on the margins at that time, not looking at any particular segment.

**Rukun Tarachandani:** And on the specialty chemical side you talk about having competence in sulfur and ethanol chemistry, so if you can elaborate on that a bit as to what is your competitive advantage there and what are these products where you can have limited competitive intensity?

**Bimal Goculdas:** Right. So that question is I guess from the DMCC perspective, because focus is on those chemicals in DMCC. So there we have certain advantages in the sense we are backward integrated all the way to sulfur, the main raw material we buy are sulfur, benzene, ethanol, we are as backward integrated as practically possible. So, we also have a good scale of operation in these chemicals, the downstream products that we are talking about. So for example, in sulfonation chemistry our technology, the quality of product is as good as anybody's in the world, our cost effectiveness is as good as anybody's in the world. So, what we also bring to the table and what is being given value now-a-days is our ability to handle these products safely and with no environment impact. Because they are all hazardous chemicals, there is a value to the knowledge of how to handle them safely. And when we talk to our customers, we always focus on that, and increasingly, overseas customers of course but even domestic customers are insisting on a safe operation and environmentally friendly operation. So this is where we stand a little bit apart from a lot of our competitors.

**Rukun Tarachandani:** So are these localized products, I mean, is the competition more local in this or is the competition global?

**Bimal Goculdas:** No, we look at the global market anyway, because for us it does not matter local or exports, we treat it the same way. About 60% of our business or 55% is domestic, 45% is exports, frankly we do not care whether it is local sales or international sales, for us it is the same thing.

**Rukun Tarachandani:** And in the products that you are in what will be the kind of market share that you command, will it be significant from a global perspective?

**Bimal Goculdas:** Depends, again for two or three of the specialties, yes we are globally number one, two or three in the world. But for things like sulfuric acid there are much bigger players.

**Moderator:** Thank you. We have the next question from the line of Veena Patel from iWealth Management. Please go ahead.

**Veena Patel:** My first question was regards to Borax Morarji. So you just mentioned that we can achieve a peak revenue of around Rs. 60 crores to Rs. 80 crores with existing capacity, that is what we have done in the past. At the same time we have been mentioning, we know that has been uploaded on the stock exchange that you have been working on few of the research oriented products. So, going ahead from the research pipeline what do you think is the growth potential we can see from the new products?

- Bimal Goculdas:** So, with any development products it is very difficult to give a target, especially numbers. But we are looking at different grades of zinc borate, we are looking at some glycol borates, we are looking at some other formulations for the specialty micro-nutrient market. And I think these would be the core areas where we are looking to do R&D work.
- Veena Patel:** So do we have something concrete which would be hitting the market maybe in next two to three years?
- Bimal Goculdas:** Yes, I mean, I would like to actually see the success in the market and then comment on that. Of course we are going to come out with some new products.
- Veena Patel:** Now, second question is with regard to Borax itself, just looking at raw material cost as gross margins, so they have been fluctuating and always they have been very lower side and compared to Indo Borax also has got majorly single set of products, they do have a higher gross margin. So any specific reason for our gross margins to be on the lower side?
- Bimal Goculdas:** See, as I mentioned we have a much higher interest cost then they do. I think they have a very low debt and I also think, I mean, I cannot comment on Indo Borax operations but I can answer anything specific about borax if you have.
- Veena Patel:** Sir, I was referring to the raw material cost, we have higher raw material cost. So what has been the reason, because both of them are in similar set of products, so similar would be the raw material. So their raw material cost is quite lower and ours is on a very higher side?
- Bimal Goculdas:** No, I would not be able to comment on that.
- Veena Patel:** And it has been fluctuating sir, just wanted to know the reason behind it, because that has been dragging our operating profit margins.
- Bimal Goculdas:** See, as I mentioned, the last one year we have seen a very low price, it is an unusually low price on boron products which I do expect will reverse. But we are looking at, as I mentioned, focusing on more of the value-added products even in the boron chemistry line, so we get away from the commodity fluctuations affect.
- Veena Patel:** And sir, we have been sourcing the major raw material products for Borax from local market or importing it?
- Bimal Goculdas:** All boron is imported, there is no boron available locally.
- Veena Patel:** And the price fluctuations have been hitting over there also?
- Bimal Goculdas:** Yes.
- Veena Patel:** And that could be one of the reasons, because you just gave us explanation for the last year's poor performance on the margins because of the China factor. But if I look back till FY13, we

have been seeing negative operating profit margins. So I was trying to understand what have been the reasons for that?

**Bimal Goculdas:** See, the last few years have been sort of a very transition period for Borax Morarji where the switch away from the Ambarnath plant to the Dahej plant has taken more time and more money than was originally envisaged and that has certainly affected the performance.

**Veena Patel:** And sir, one last question. You just mentioned that one of the rationale for the merger has been the utilization maybe of the unutilized part of the Dehej plant of the Borax where you would be taking ration call as to when which product will be suited for production. Now, we have the facility at Roha of Dharamsi so here we have a research pipeline already available and where you are just trying to launch maybe two to three products every year. So the current capacity that is available is sufficient for the production that we need to do it?

**Bimal Goculdas:** What is the question, sorry?

**Veena Patel:** Sir, we have sufficient at the existing plant of Roha.

**Bimal Goculdas:** For certain products, yes. We would not be duplicating the Roha products in Dahej, we will be doing different products there.

**Veena Patel:** Okay. So, Dahej plant may be used for the new set of products altogether?

**Bimal Goculdas:** Yes, it may be products which are developed by R&D at Roha, but it could be sulfur based as well, it could be ethanol based as well, but not necessarily something which we are already making at Roha.

**Veena Patel:** Anything that you have in your mind on concrete basis, maybe next two to three years you would like to do it in Dahej, the production?

**Bimal Goculdas:** Not like that, not immediate.

**Veena Patel:** And sir, one final question with regards to the tax benefit, because Borax has got accumulated losses, so we will be getting some kind of tax advantage?

**Bimal Goculdas:** Well, we are doing the scheme of arrangement in such a way that we are following the purchase method where the losses of Borax will not be carry forward to Dharamsi.

**Moderator:** Thank you. We have the next question from the line of Darshit Shah from Nirman Capital. Please go ahead.

**Darshit Shah:** Sir, my question pertains to the outstanding preference shares which we have in both the companies, that is close to Rs. 9 crores we have in Borax and around Rs. 2.8 crores in Dharamsi, plus the cumulative dividends. Sir, what the plant have, or do we intend to further kind of convert them into equity of the plant to pay them over the years?

- Bimal Goculdas:** Yes, there are two separate sets of preference shares, the Rs. 9 crores in Borax is held by promoters and part of the scheme is to convert it into equity at the market price which was Rs. 108 a share at the relevant point in time. So, the Rs. 9 crores will be converted into equity, the dividend will not be paid, it will be waived, it has been waived by the promoters, that will not carry on. The other Rs. 2.8 crores is held by an employee welfare trust, so we cannot convert that into equity and we cannot wave the dividend on that. So, of course that is a much lower rate of dividend, I think 2.5% or something like that. So that will be paid when the company is able to pay.
- Darshit Shah:** Okay, so this Borax one would be converted in this current scheme of arrangement?
- Bimal Goculdas:** Yes, the Borax preference shares would be converted into equity and the cumulative dividend would be waved.
- Darshit Shah:** Correct. Sir, the next question pertains to, sir we do have been maintaining shut-downs every 15 to 18 months in Dharamsi, so when do we expect the next shutdown happening and do we kind of shift production in Dahej later on or that is not going to be the case?
- Bimal Goculdas:** So, what happens is the sulfuric acid plant shut down which affects the entire Roha site does happen every 15 to 18 months, but it is not possible to eliminate the effect of that by setting up at Dahej unless we also put up a sulfuric acid plant there which is not our plan at the moment. So you will have to just bear with that, what we are looking at is looking at products, some of which may not require a sulfuric acid plant to be operational, we are also looking at enhancing or we have enhanced some of our storage capacities so that we can mitigate the effect of the shutdown. But yes, the effect will be there, which is likely to be in the next quarter.
- Darshit Shah:** And sir, in terms of our multi-purpose plant, sir how many do we have currently and last year also we planned to put around Rs. 10 crores for that multipurpose plant, so have you got all approvals in case, because what we understand is now the approvals are plant specific rather than product specific.
- Bimal Goculdas:** No, in fact the approvals are product specific. So it is not possible to just setup a plant and then say I will produce anything I want. In fact, we are arguing for that, but it has not become a reality yet. So we have two multipurpose plants at Roha, and the rest are dedicated plants.
- Darshit Shah:** And do we intend to put more multipurpose plants?
- Bimal Goculdas:** Yes, certainly. As I said, our idea is to look at multipurpose manufacturing plants because of their flexibility and from those plants if any particular product becomes sufficient volume then it could have its own dedicated plant.
- Moderator:** Thank you. We have the next question from the line of Rohit Balakrishnan from Rare Enterprise. Please go ahead.
- Rohit Balakrishnan:** Bimal, just want to understand in the context of this merger that is happening now, how does the overall view of the company looking at niche chemicals, given that a certain part of Borax

Morarji is largely commoditized. So how does that, your sort of view of transitioning from more commodity to specialty which sort of has happened in DMCC. How do you view that given that it is a combined entity now?

**Bimal Goculdas:** Yes, so certainly there are some specialty products in Borax as well and the boron space has plenty of specialties, we will look at combining the strengths of both companies, particularly our R&D and even the management and try to move more and more up the value chain. Like we have done in DMCC we will also look at specialty borates, it is a whole wide range of products out there.

**Rohit Balakrishnan:** And any evaluation criteria that you have in mind that you can lay down in front of everybody in terms of opportunity value or margins or...?

**Bimal Goculdas:** Yes, like we have been talking consistently, if it fits within a three year payback we will invest in it. And Rohit, just to tell you again that it is not necessary that in Dahej we will only do boron products or in Roha we will only do sulfur products, we are removing that distinction.

**Rohit Balakrishnan:** And on DMCC, so any update on the sulfone products that you were looking to launch, how has that been, if you can provide any updates on that?

**Bimal Goculdas:** Yes, so we have some approvals in place, as I mentioned. Still not as fast as we would like, but it is in progress.

**Rohit Balakrishnan:** Any thoughts on when do you think you will be able to get those approvals?

**Bimal Goculdas:** It is tough to say because it is not in our control, it is all with the customers.

**Rohit Balakrishnan:** And so if you think combined, I mean now it will be almost Rs. 180 crores to Rs. 200 crores top-line company, if you take a four, five-year view, longer view, I am sure projecting revenue is very difficult, especially in the year end. But I just want to understand in terms of your broader vision what are your thoughts, because you have taken lot of steps both operationally and non-operationally, like you talked about waving of the dividend in Borax Morarji also and also in DMCC there was a preferential issue few months back. So, just want to understand the overall, the promoters have also given interest free loans in the past, there has been a fair haircut for the promoters as well. So just wanted to understand like given you are a majority holder in the company, just want to understand four, five years out what is your thought process, how are you thinking about this company?

**Bimal Goculdas:** certainly having two listed companies with common promoters and all did not make any sense now. So, both are in chemicals, so it is just better overall to combine. We would certainly say in admin and other costs, but apart from that we are looking at it that yes promoters have sacrificed but it is because we believe that we will get more than that in return over a long period of time. So, certainly it is confidence from the promoters in the company, that is why we have done it, nobody does this for charity. But we believe that having both companies

together under one banner would certainly help overall. So it is like one plus one will be three and not two.

**Rohit Balakrishnan:** And Bimal, in your products in DMCC for how many products you would say that I am excluding the chemicals like sulfuric acid which are not really higher margins but for the chemicals which are more higher margins what would be the market share and in how many products would you be in the top one or two or three in the global space?

**Bimal Goculdas:** See, globally there are three products where we have significant market share. The benzene sulfonyl chloride we would be the largest in the world, we are probably close to 40% to 50% I would say, maybe 40% of global share. In sodium vinyl sulfonate we would be around 25% and the diethyl sulfate we would be around 20% - 25%. We cannot say exactly because these numbers are not published, but these are estimates from what we know in the market.

**Rohit Balakrishnan:** And of the Rs. 130 crores of revenue how much would these three roughly contribute?

**Bimal Goculdas:** See, roughly around 65% to 70% is our specialties and these would form the bulk of that.

**Rohit Balakrishnan:** Okay, so about 80% would be a fair estimate?

**Bimal Goculdas:** Yes, I would not know off hand but it is significant part of the specialties, yes.

**Moderator:** Thank you. We have the next question from the line of Praveen Sharma who is an individual investor. Please go ahead.

**Praveen Sharma:** Sir, if we look at the two companies separately, DMCC and Borax Morarji, it appears that with the Borax Morarji with its poor balance sheet and P&L will be a huge drag on DMCC. So the overall performance of the consolidated entirety will highly be dependent on the performance of Borax Morarji operations. So can you give a flavor to when do we expect Borax Morarji to breakeven at operational level, what kind of timeframe we are looking at?

**Bimal Goculdas:** Yes, if you see the Borax performance, actually this year has been better than the previous year, in spite of all the constraints. And we expect next year to be improvement over this year as well. One of the things that we are looking at is how to cut down on the interest cost, that has been a big drag. And once you have it is like a vicious circle which prevents you from getting out of trouble. So we believe that with the resources DMCC can bring in, we should be able to get out of that.

**Praveen Sharma:** So, I am sure you will be renegotiating your interest rates with bank once the consolidation takes place, and after that do we expect Borax Morarji operations to breakeven once this merger happens?

**Bimal Goculdas:** Of course. See, we are not doing this just to sort of subsidize Borax, let me be very clear that we believe that boron products themselves will make money, A. And B, that by combining the two sides and having two manufacturing footprints, one in Gujarat and one in Maharashtra, it

will help the overall group as well. So the growth of DMCC also will be helped by having this extra site.

**Praveen Sharma:** And sir, just to have an understanding in terms when we talk of a consolidated revenue of say Rs. 160 crores to Rs. 180 crores, at the good time of operation in future what kind of EBITDA margins do we expect on a consolidated level?

**Bimal Goculdas:** I cannot give projections like this, but certainly we would at least try to maintain what we are currently doing in DMCC.

**Praveen Sharma:** And sir, what is the expected timeline for this to happen, this merger to happen, what are the next steps?

**Bimal Goculdas:** Yes, so we have filed with SEBI and it is a long process, we have to seek approval of shareholders including minority shareholders, creditors, banks and all that. We expect it will take about six months. Now the process goes to the National Company Law Tribunal, NCLT. But the appointed date will be April 1<sup>st</sup>, 2016.

**Moderator:** Thank you. Our next question is from the line of Yogansh Jeswani from Mital and Corporation. Please go ahead.

**Yogansh Jeswani:** Sir, my first question is regarding the Rajasthan plant that we have, I think in Annual Reports we have mentioned about shutting the plant completely. So, what is the outlook there in a certain light?

**Bimal Goculdas:** Say again, I did not get your question.

**Yogansh Jeswani:** Sir, my question is regarding the Rajasthan plant we have in the DMCC side, which I think as per the Annual Reports is completely shut. So what is the outlook there, sir?

**Bimal Goculdas:** See, I will tell you, historically there was a sulfuric acid plant and single superphosphate and some downstream chemicals many years ago, but it has been operating as a single superphosphate plant for the last at least 15, 20 years. So we have shut that down and we have no plans to revise that part of it.

**Yogansh Jeswani:** So sir, currently no plans like how we have had for Ambarnath of selling it off, so there are no such plans for Rajasthan?

**Bimal Goculdas:** No, these are all plans that are not much in terms of real-estate value or anything like that.

**Yogansh Jeswani:** And not even the fixed assets, since it is age old plant?

**Bimal Goculdas:** No.

**Yogansh Jeswani:** And sir, next question will be on lines of the exports that we are doing. So on the DMCC side I feel we have done a great run-up in the exports market, we have been going 40%, 50% like year-on-year. So, two questions on that sir, do we have any contracts with the big players there

and are we getting more such contracts or is it more of an order and sell basis? And secondly, what all will be the major export markets, can you give a breakup of those major export markets for us?

**Bimal Goculdas:** Sure, coming to your question about the contracts, you see the products we export are those which are manufactured only by a handful of people and consumed also by a handful of people. So customers need us and we need the customers. So while we may not have written contract, they are ongoing, it is not that the business is spot business or anything, it is all long-term business, although it may not be with particularly single signed contract. And your second question was...

**Yogansh Jeswani:** Breakup of these markets in terms of major revenue generators.

**Bimal Goculdas:** I would say, rather than giving you percentages I could tell you that US is our biggest export market, followed by the EU. And I would say our third largest market is probably China.

**Moderator:** Thank you. We have the next question from the line of Nipun Gupta who is an individual investor. Please go ahead.

**Nipun Gupta:** Sir, I just wanted to know what is the pricing difference in case of Borax product, I guess there has been import of Borax, like boric acid and borax. So what is the pricing difference between our price and the imported products?

**Bimal Goculdas:** See, in the selling price Borax Morarji, the brand does command a premium, but other than that all commodity products have to be around the same price.

**Nipun Gupta:** So sir, do we have a dedicated selling channel or how is the selling part looked after?

**Bimal Goculdas:** Typically the boron business is done through distributors.

**Nipun Gupta:** So we have one particular distributor...

**Bimal Goculdas:** Not one, there are several, every state would have some distributors.

**Nipun Gupta:** And sir, just one last question, what is the status of the Ambarnath land or Borax Morarji?

**Bimal Goculdas:** So, that is in the process of being sold, permissions are awaited. So we think we are waiting for the approvals there.

**Management:** Thank you. We have the next question from the line of Rishabh Vasa from Almondz Global Securities. Please go ahead.

**Rishabh Vasa:** Sir, you just mentioned about the land sale of Borax Morarji, what is the status of Dharamsi Morarji in the Ambarnath plant, is it already sold or we will be selling together?

**Bimal Goculdas:** No, it has no connection.

- Rishabh Vasa:** But we have that land there in Ambarnath, right?
- Bimal Gocaldas:** But that was gone several years ago.
- Rishabh Vasa:** So, under DMC we do not have any land in Ambarnath?
- Bimal Gocaldas:** No.
- Moderator:** Thank you. We have the next question from the line of Darshit Shah from Nirman Capital. Please go ahead.
- Darshit Shah:** Sir, my question is particularly with diphenyl sulfone which we are kind of making in specialty chemical side. One of the products that is DHVP where we see a lot of global players importing in India, sir what is the progress in that and have you got any major customer approvals for that?
- Bimal Gocaldas:** No, we do not have any major volume approvals yet, as I mentioned earlier. We are under testing with several customers for the Dihydroxydiphenyl Sulfone. But those for the diphenyl sulfone and other products, we have already done commercial sales.
- Darshit Shah:** Sir, what would be the rough size of those products in India, in terms of volumes?
- Bimal Gocaldas:** We are looking at the global market, Indian market may not be so big. Globally it is few hundred crores.
- Darshit Shah:** And we expect ourselves to be a major player over years in this product?
- Bimal Gocaldas:** Well, it would take time and we expect to certainly get some share of this.
- Darshit Shah:** And it is a high margin product?
- Bimal Gocaldas:** Yes.
- Darshit Shah:** So anyone apart from Aarti who makes this product in India?
- Bimal Gocaldas:** Aarti does not make this particular product.
- Darshit Shah:** Okay, so domestically are there any players who make this product?
- Bimal Gocaldas:** No.
- Moderator:** Thank you. We have the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir, on the Borax Morarji side, can you give any data on the volume sold last year, like we did Rs. 40 crores - Rs. 45 crores of revenue, so what was the volume in that and also for the nine months how much have we sold?

- Bimal Goculdas:** I will have to check and come back, but in general in terms of tonnage if I recall, it is in the few thousand tons, they are not very high volume items.
- Dhaval Shah:** So any number on the value, like per ton realization?
- Bimal Goculdas:** Yes, roughly I can tell you that for Borax it would be about Rs. 40,000 a ton, for boric acid would be maybe Rs. 60,000 - Rs. 65,000 a ton, but these are rough numbers and they would change.
- Dhaval Shah:** And now sir, after the combined entity, what sort of incremental capital do we need every year in terms of capital expenditure, at least we must have planned something for next two years?
- Bimal Goculdas:** Yes. As I said, what Borax products would need for their existing products or even to go up in capacity in boric acid is not a very large amount of capital. If we were to do any new projects then a typical multipurpose plant is about Rs. 10 crores investment.
- Dhaval Shah:** So with the same economics what you had mentioned for DMCC?
- Bimal Goculdas:** Yes, typically.
- Dhaval Shah:** So, at least for FY18 and FY19 have you planned any investments for both these companies?
- Bimal Goculdas:** At the moment we have not finalized anything.
- Dhaval Shah:** And sir just last one, this sulfuric acid is the common raw material for both the companies?
- Bimal Goculdas:** Well, sulfuric acid is made by DMCC, also it forms the basis of the raw material of DMCC. And it is needed for some boron products, it is needed for making boric acid, yes. But it is not an important component of that.
- Moderator:** Thank you. We take the last question from the line of Rohit Balakrishnan from Rear Enterprise. Please go ahead.
- Rohit Balakrishnan:** Bimal, just wanted to understand, I had just two questions. One, you named three products, benzene sulfonyl chloride, vinyl sulfone...
- Bimal Goculdas:** Not vinyl sulfone, it is sodium vinyl sulfonate, we are not into vinyl sulfone.
- Rohit Balakrishnan:** And what was the third product that you mentioned?
- Bimal Goculdas:** Diethyl sulfate.
- Rohit Balakrishnan:** And just last question, I understand obviously revenue in terms of value is difficult but can you just talk a bit about how you have grown in terms of volume over the last three, four years and how do you see that in the next three, four years again? I mean, I am just talking about DMCC. And if you can add borax as well, but just want to understand just in terms of volume.

- Bimal Goculdas:** See, I would not like to talk about this specialty products individually, but I can tell you that from the new multi-purpose plant this year we have done nearly 600 tons - 700 tons combined which was not there at all in the previous year. And we would like to see such growth. Again, the specialty products are difficult to say in terms of production capacity because some products may take a longer time to make, in which case they occupy a plant for longer and so you get less output, but that is compensated then by a higher margin. So, while I have told you that nameplate capacity could be x, but that is for a particular product time cycle and it does vary. In our business the tonnage does not really matter so much, because if a product takes longer to make and we have less output we would be able to charge more for it.
- Rohit Balakrishnan:** So, 600 tons - 700 tons that you added last year is on what base?
- Bimal Goculdas:** So this is on zero base, because...
- Rohit Balakrishnan:** No, at a consolidated level I mean, at a company level, so just talk about aggregate specialty chemicals that you produced in let's say...
- Bimal Goculdas:** I will have to come back to you on that one, maybe a bit late. I will have to check. We will have to compare what the breakup was between specialties, commodities and all that.
- Moderator:** Thank you. That was the last question. I now hand the floor over to the management for their closing comments.
- Bimal Goculdas:** Well, I hope all of you found this useful. For us this was a first experience and certainly I was happy to see the response. Thanks to PhillipCapital for organizing it. Thank all of you for taking the time to attend it. We could see some very relevant questions, valid questions. And rest assured that you have the commitment and confidence of DMCC and Borax management, promoters and all the employees. And we look forward to all of your support when these matters come to you for vote. Thank you very much.
- Samarth Sanghvi** Thank you so much to Mr. Goculdas, Mr. Gokhale and Mr. Sundaram, Thank you so much for making this call happen. We would once again thank on behalf of PhillipCapital to everybody for joining this call. You may now disconnect your lines. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of PhillipCapital (India) Pvt. Ltd. we conclude today's conference. Thank you for joining. You may now disconnect your lines.

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*This transcript has been edited for factual errors and language correction. However, it may still contain some transcription errors.*