



“Archean Chemical Industries Limited Q3 FY2023 Earnings Conference Call”

February 13, 2023

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Moderator: Ladies and gentlemen, good day and welcome to Archean Chemical Industries Limited Q3 FY2023 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ranjit Pendurthi, Managing Director. Thank you and over to you Sir!

Ranjit Pendurthi: Thank you. Good afternoon everyone and thank you for joining us on our first ever earnings call to discuss the operational and financial performance of Q3 and nine months FY2023. On this call we are joined by our CFO, Mr. Raghunathan Rajagopalan and Mr. Rajeev Kumar, Deputy General Manager, Finance, and SGA our investor relations advisors. I hope everyone had an opportunity to go through the financial results and investor presentation which has been uploaded on the stock exchange and our company website. This should have been available beginning last Friday evening.

This has obviously been an important quarter for the company with the listing on stock exchange in November 2021 and first of all and foremost we would like to thank all our stakeholders for the successful launch of the IPO and all those who have invested in the company past and present and in the future and we believe that we are emboldened in carrying out our plans for the company with such faith expressed in us and our company.

Some of you may be hearing us for the first time today just a quick background of what the company does and then Mr. Raghunathan, our CFO will walk you through the operational and financial performance and the numbers. So, Archean, we are a 10 plus-year-old company and we are a leading manufacturer of marine chemicals and specialty marine chemicals in India. We manufacture primarily three products bromine, industrial salt and sulphate of potash. Our facility is located in Hajipir in Gujarat and we have our own brine reserves in the Great Rann of Kutch in Gujarat. We have an integrated production facility that is one of the largest of its kind, making marine specialty chemicals and is located close to Jakhau Jetty and Mundra Port since logistics is an important part of what we do as well. Majority of revenue is primarily coming from exports more than three quarters almost and we have a large export presence in the far Eastern markets right from China, Japan, South Korea and all the way to the Middle East with countries like Qatar and UAE and also we have an exposure to the export markets for sulphate of potash in Europe. We have about 52 clients out of which 27 are global and 25 are domestic and many of them are large conglomerates and global trading companies.



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A quick glimpse on each of the products, many of you may already know some parts of it but nevertheless, Bromine is one of our main products and contributes almost half of the revenue in nine months FY2023. It is a member of the halogen family and is found naturally in sea water, underground brine deposits and other water reservoirs rich in Bromine. It is a starting point for making many of the value added products that we intend to make in the coming years on the Bromine derivatives side through our downstream wholly owned subsidiary that is coming up in Jhagadia and it is also used in industries like pharma, agrochemicals, water treatment, flame retardants, additives and oil and gas segments. There is a large end application use but the production of Bromine is from very limited sources. We hold the leadership position in India's Bromine merchant sales. We are the largest exporter out of India and probably in times to come we should be the largest manufacturer as well. For the last few years, we have invested in building capacity in bromine and we have moved from 10000 tonnes per annum size to 28500 tonnes and we are also now close to expanding that in excess of 42000 tonnes. Industrial salt is another main product for us. This comes during the process of manufacturing bromine. About half of our revenue comes from industrial salt. The industrial salt is primarily used by importers in the regions overseas, as I told you for caustic soda and soda ash primarily for making chlorine to downstream plastic markets, PVC, etc., 100% of our industrial salt is sold overseas and we have a strong association with Sojitz Corporation a large Japanese trading conglomerate who is also one of our major customers for the product. We have three washeries in the industrial salt field and we are also planning to expand that by adding one more washing line to take the capacity up. Sulphate of potash again, we are only one of the few in the world who makes it from natural sea brine and hence we have a low cost of production. It is a fairly green process as there is no chemical additives involved. We only use a simple separation process and we are the only one, as I said, who make it from natural sea brine. Globally, only 15% of sulphate of potash is produced through the brine route and the balance 85% is produced through the non-green or chemical route which is a bit energy intensive. It is a speciality fertilizer that is used mostly for chloride-sensitive crops and we are one of the few companies who received REACH certification in Europe which allows us to export our sulphate of potash products to European customers for direct application of blending purposes. Over the last few years, we have had some challenges on the raw material preparation for the potash plant and we have worked over the last few months to solve this technical issue and we have found some ways of dealing with this hence we feel that the production numbers will improve on this particular product in the months and years to come.

On the capex, we are in the growth phase and obviously given the growing demand for the three products, we continue to invest in expanding our capacity and capability. As I mentioned, in bromine we are adding an additional 14000 tonnes per annum which will be used for producing the downstream derivatives in our upcoming facility and Greenfield projects in Jhagadia in Gujarat. Industrial salt, I already mentioned, we are going to expand the washing capacity by adding another



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washery of 250 tonnes per hour, further taking our capacity up and in sulphate of potash I think I have covered that the improvements we are making on the field.

Greenfield expansion as I mentioned, we are doing this through a wholly owned subsidiary in Jhagadia and we have just started work on that plant and will be making bromine derivatives primarily flame retardants, clear brine fluids and bromine catalysts and obviously you are all aware globally properties worth billions are lost due to fire-related accidents every year and stringent safety norms are imposed and the flame retardant is one such category that addresses such concerns stemming from fires. Capacity for bromine dominated flame retardants will be about 10000 tonnes per annum followed by the clear brine fluids about 13000 tonnes per annum and 5000 tonnes per annum of the bromine catalysts. The capex is about Rs.250 Crores and we expect to commence production by the end of FY2024. I will hand it over to Mr. Raghunathan, our CFO who will walk you through some of the numbers and the highlights and then we can take questions. Thank you.

Raghunathan R:

Thank you Sir and a very good evening to all the participants on the call. We are pleased to place on record our performance for Q3 and nine months period ending December 31, 2022. Both bromine and industrial salt have reported a reasonable performance in this period. To give a brief summary of Q3 performance the total revenue is at Rs.3723 million, a growth of 19% on a Y-o-Y basis, 77% of this revenue is from exports and the remaining 23% is from the domestic market. If I had to add on the revenue mix, bromine has contributed around 43% of the total revenue, industrial salt has given around 56% and nearly 1% has come from SOP. EBITDA for this quarter is at around Rs.1677 million, a growth of 36% on a Y-o-Y basis and has given a margin at 45%.

Coming to the net profit, the company has registered a net profit after tax of Rs.983 million which is almost 2x of the previous year's PAT for the same period.

Moving to nine months performance, total revenue for the nine month period is Rs.10943 million giving a growth of 42% on a Y-o-Y basis. Export market has contributed around 73% and the remaining 27% is from the domestic market.

Moving to the revenue mix, bromine has contributed around 51% and industrial salt has contributed around 49%. EBITDA for the company for nine months period is at Rs.4755 million, a growth of 51% on a Y-o-Y basis with EBITDA margin at 43.5% during this period.

The company has registered a net profit after tax of Rs.2468 million for the nine months period ending, giving a growth of 131% on a Y-o-Y basis.



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A few other updates that have happened during this period is that, IPO proceeds were used to redeem the entire NCDs. Net debt to equity is at 0.1 as at December 31, 2022 and ROE and ROCE are at 40% plus as on this date. With these few words, we open up the floor for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good afternoon Sir and thanks for providing this opportunity. I have got a few questions. First on the bromine sales for this quarter which looks like has reduced on a Y-o-Y basis we are down 5.4% what is leading to this decline in the bromine sales that is number one, number two, on the salt there looks like a significant growth of around 58% on a Y-o-Y basis Q3 of this year to Q3 of last year now can you help us understand what is driving the growth here and another there is a decline so these are my first questions. Thank you.

Ranjit Pendurthi: Thank you for the question. On the bromine, obviously I should be quick to point out that the market remains firm, the offtakes remain firm both domestically and overseas; however, as you realize a large part of the bromine that we sell overseas and so the bromine business itself is split between domestic market and the export market. It is about roughly half and half, so the export market because of the last quarter which is Q3, the Chinese which are the larger importers of bromine product were affected by the outbreak of COVID and that situation led to a lot of challenges in moving the containers and the local logistics issues in China and we have been told to stagger the shipments and also it is quickly followed again by the New Year that they celebrate this January end 2023. So one after the other we have been staggering those shipments; however, we have been able to obviously divert that volume into the domestic market and like I said the domestic market continues to remain firm, soft and that was the reason and we believe that it is just an aberration, it will quickly correct itself as the cases and the situation in China improves, as it has already been improving over the last month or so. On the salt, our volume has grown because the offtake has remained strong from all existing customers, we have got a couple of new customers as well and I think the downstream markets for some of these large petrochemical plants has remained strong so the growth has come from that. Just to clarify, also the average realization also moved up for salt over the previous contracts and that has also helped to create both volume and value.

Sanjesh Jain: Got it. Second on this SOP we have harvested new KT and we were expecting 9000 to 10000 metric tonnes of sales that entire sales will be booked in Q4. Are we confident on that?

Ranjit Pendurthi: We have produced that quantity and we are confident of booking a large part of the sale within this financial year. We are just waiting for some of these markets to reopen and the planting season will



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start generally in April and May. So the customer starts booking their orders. As we speak so, we are already in negotiation with a few customers to finalize that.

Sanjesh Jain: Got it. Second can you provide the volume for all the three segments for this quarter as well as same quarter last year?

Rajeev Kumar: For industrial salt this quarter for nine months we have done 1.1 million tonnes of sales. For the corresponding figure for last year was last year nine months was 900000 tonnes approximately. For SOP against 2300 we have 322 we have done 582 and for bromine nine months this year is 14071 tonnes against 14733 tonnes last year nine months.

Sanjesh Jain: Got it. One last question from myself before I join back the queue do you want to give any update on the land renewal where are we in the process and when it is expected to be closed? That is it from my side? Thank you.

Rajeev Kumar: Just to clarify one thing Sanjesh the salt figure and SOP figure which I told you was for the quarter. Bromine was for nine months and salt for the nine months is Rs.2.75 million this year which was Rs.2.42 million last year nine months.

Sanjesh Jain: Bromine for this quarter?

Rajeev Kumar: Bromine for this quarter is around 4000 tonnes corresponding to 5200 for last year.

Sanjesh Jain: Got it. Thank you and the land renewals?

Ranjit Pendurthi: That is work in progress. We are confident of getting that renewal soon because I believe that there are other companies also in the state of Gujarat waiting for state government's permissions and renewals. So I think the government obviously continues to remain very proactive in these matters and we hope that sooner than later.

Sanjesh Jain: Got it. Thanks for all the answers and best of luck for the coming quarters.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Thank you for the opportunity. My first question was on bromine the current total capacity today would be around 28000 metric tonnes. is that understanding correct?

Ranjit Pendurthi: Sorry just to clarify that is the capacity of December 2022.



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- Chirag Lodaya:** That is December 2022?
- Ranjit Pendurthi:** Yes.
- Chirag Lodaya:** Whatever where the shipment which got delayed in this quarter we will be able to compensate in the next quarter right?
- Ranjit Pendurthi:** Yes and I think as the local COVID issues subside in China the shipment should be back on track but nevertheless I think as I said we have a large customer base within India as well and we have been able to divert a large part of that volume redirect it into Indian markets.
- Chirag Lodaya:** Got it and second was on pricing so if you can just help on the bromine side so what is the current pricing and contractual terms?
- Ranjit Pendurthi:** Contracts typically run, basis 12 month order books largely so it is contracted out so I think on the contracted pricing we are still seeing at the levels that we disclosed in the DRHP. We are not seeing too much variation on that front.
- Chirag Lodaya:** So FY2024 quantity as well as price is being contracted is that understanding correct?
- Ranjit Pendurthi:** Half of the year as of now. The rest half of the year I think is under discussion so our endeavour will always remain to keep at least the year's order book as we have always kept in the past.
- Chirag Lodaya:** Correct and these contracts for domestic as well as export right?
- Ranjit Pendurthi:** Yes for both and on the industrial salt we usually have two year contracts and the two year contracts are already in place for the next two calendar years.
- Chirag Lodaya:** Right and this quarter realization in industrial salt will reflect this two year new pricing?
- Ranjit Pendurthi:** Yes.
- Chirag Lodaya:** Got it and just lastly on this derivative plant you mentioned that you will be starting this plant by Q4 FY2024. is there any delay in this plant because I think earlier understanding was it will get commissioned in Q2 end?
- Ranjit Pendurthi:** No there is no delay per se. All the permissions are in place. So I think we are now trying to see, earlier we had phase one and phase two, so I think given the market, we believe we would try to complete both phases within that timeframe.



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- Chirag Lodaya:** Commercial production will start in Q1 FY2025?
- Ranjit Pendurthi:** No, I think we aim to start commercial production and billing before FY2024 end itself.
- Chirag Lodaya:** That is great and industrial salt when we expect the capacity to go up from 3.6 million to 5.2 million?
- Ranjit Pendurthi:** That should happen sometime through the second half of this year.
- Chirag Lodaya:** Okay so currently we are running at peak utilization. is that understanding correct?
- Ranjit Pendurthi:** Yes, we are running at more than 100%, so with all the business in hand we are sufficiently covered in terms of existing output.
- Chirag Lodaya:** Got it and what could be the seasonality in our business across four quarters if you can just help us understand across industrial for the bromine and SOP?
- Ranjit Pendurthi:** Salt is generally stable through the quarters because there is always a shipment plan that is given well ahead of time by the customers. Bromine also is fairly even, it is just that depends sometimes on the rains and the monsoons in India where depending on the requirement of the agrochem, the shipments vary a bit in accordance with the demand by the agrochem players. Farmers obviously far more even. The large sector continues to remain the agrochem sector within India and on the overseas side again that is a fairly stable offtake because that is primarily used for flame retardants which are not necessarily weather related or agriculture related so it maybe more pointedly historically if you see they will generally be Q3, Q2 or Q3. You will see a little bit of a downshift because that is when India has monsoons.
- Chirag Lodaya:** It is very clear Sir. All the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.
- Amar Maurya:** Thanks a lot for the opportunity. Sir you indicated that basically the contract price is largely at the same level what you basically disclosed in the DRHP but then I believe the spot bromine price had slightly elevated right so does that change your basically the future price, how the dynamics work let us say the spot versus your contracting price?
- Ranjit Pendurthi:** Generally our prices are fixed so we do not necessarily renegotiate with the buyers, so I think like as I said earlier on the call we believe that the contract that we are servicing right now will largely be in line with what has already been signed and at what prices they have been signed.



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Amar Maurya: Okay but then let us say I believe now you are covered for 12 months right after 12 months, let us say, going by the six months you have to again sign the new contract so in that new contract how the price mechanism will be decided is that the spot minus 20% to 30% or spot plus 20% how is it decided?

Ranjit Pendurthi: Well I think as a company we have never really believed in spot price being valid for a long term contract price. It may not be necessarily the right place to start a negotiation with. I think it depends on the volume a customer optic, depends on the size and the nature of relationship for a number of years that we have had with them and we also always have spot price similarly as they also know so they know that they are not going to get too much discount in terms of where the pricing today stands but it also means that everyone has to take a view on whom this spot price holds because the buyer naturally, no buyer is going to say the high spot price on hold, as a seller it will be our endeavour to see how much closer we can be to such a spot price but generally spot price will not be the basis of our negotiation for a long term contract.

Amar Maurya: Secondly Sir in terms of the bromine capacity you would be like operating at what utilization today?

Raghunathan R : We are at around 75% of the capacity.

Amar Maurya: Let us say the forward of the bromine which you are going to do in that also the base bromine will be used so basically how much of this capacity will be let us say internally consumed next year?

Ranjit Pendurthi: I think when the downstream plant is up and running, our anticipation is that in the first year we should be close to 5000 tonnes to 6000 tonnes of internal consumption and then going up all the way to 13000 tonnes internal consumption.

Amar Maurya: Then you have the leeway to expand your bromine capacity also like what you are doing in salt?

Ranjit Pendurthi: We do.

Amar Maurya: Let us say if requirement comes can we let us say it is debottleneck our capacity by 30% to 40%?

Ranjit Pendurthi: I would not hazard a guess on the quantity we can debottleneck but we certainly can increase production as and when required for the downstream unit because that is our focus going forward on the value added products.

Amar Maurya: Okay perfect Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ajay Sharma from Maybank. Please go ahead.



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- Ajay Sharma:** Actually I want to check for the derivatives right at the full optimum utilization what sort of revenue and EBITDA would you target?
- Rajeev Kumar:** We are doing a capital expenditure of around Rs.250 Crores there and on full ramp up of the capacity we expect that to be around three times asset turn and EBITDA something we expect to be in early 30s with market prices of bromine.
- Ajay Sharma:** Then I also want to check in terms of within the bromine and the industrial salt right is there a difference into the EBITDA margins?
- Rajeev Kumar:** We are not doing segmental level EBITDA because there are a lot of costs which are shared but contribution wise bromine is better than industrial salt.
- Ajay Sharma:** Okay right because if I look at Q3 right which the salt contribution is much higher right the margin has also improved actually compared to the previous quarters so I am just wondering?
- Ranjit Pendurthi:** Yes that is because I think we started including some new contracts at higher pricing, we were saying earlier where there was a correction upward correction in the salt pricing and I think that is being reflected in those numbers and as I said the bromine on the export side shipments have been staggered out.
- Ajay Sharma:** Just a last on in terms of exports and domestic for bromine right, is there a difference in the pricing and profitability?
- Ranjit Pendurthi:** No really. It is pretty much at par, give or take depending on a specific contracts at that point in time but if you take the whole for a year there would not be too much of a variation.
- Ajay Sharma:** The average realization of bromine seems to have gone up from Q1 to Q3 is that entirely because of the rupee depreciation or because I am just calculating based on your quantity disclosed so it seems like it has gone up all the way to 400000 or 390000 for bromine?
- Raghunathan R:** Predominantly due to steady increase in the bromine prices.
- Ajay Sharma:** So even the contract price is going up, is it?
- Ranjit Pendurthi:** The contract prices were already at a higher level than the previous quarters so the newer contract came into effect over the last two quarters.



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- Ajay Sharma:** Okay but it is a 12 month cycle right so normally it gets adjusted every 12 months or you start seeing the benefit within six months basically?
- Ranjit Pendurthi:** So to clarify, 12 months does not mean that every customer starts at 12 months, it is a rolling basis so there may be a customer A whose contract has got signed nine months ago who is at the end of his contract, someone may have started only three months back so nine months left in the contract.
- Ajay Sharma:** Great so that means your realization could continue to inch up as long as the bromine price remains firm at the current levels because you will have some new guys coming at a higher price right again?
- Ranjit Pendurthi:** Yes if the price is whole yes vis-à-vis like you rightly said the old contracts whom we are servicing towards the end of their life they are going to be negotiated at today's price vis-à-vis their old price.
- Ajay Sharma:** Okay thank you very much.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from JM Financial PMS. Please go ahead.
- Sudarshan P:** Thanks for taking my question. Sir can you talk a little bit more because if I look at the cost we have a higher cost on the power side and the transportation side I would have assumed that this cost for everyone else has been higher and it is coming down so can you give some color with respect to how do you see this cost say versus last quarter to now and how do you see the trend over here?
- Raghunathan R:** The cost for this quarter has gone up in terms of other expenses as we have more of CFR contracts in this quarter on salt. As we have more of CFR contracts, we have ocean freight that has built up in the other expenses. That is one of the major reason for the increase in the other expenses t otherwise we would see that on net-net price realization on salt it is up as compared to the previous period.
- Sudarshan P:** Sure and the absolute cost if I am looking at say a transportation cost for container export on for the bromine or the salt is that coming down because I remember that it had spiked and it was coming down I am just looking at it whether the trend is moving down?
- Ranjit Pendurthi:** Yes I think it is overall with the global trend. Those costs are coming down and obviously we are seeing the benefit of that as well.
- Sudarshan P:** Sure both on the transportation and the power cost I would ask?
- Ranjit Pendurthi:** Yes on the ocean freight cost and the power cost.



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- Sudarshan P:** Sure Sir. Sir one clarification that I have we are adding about 28000 tonnes primarily on the derivative side and we are spending about Rs.250 Crores the optimum asset turn of about three times if I actually divide the Rs.750 Crores by Rs.280 Crores I am getting a price just slightly lower than that of the current bromine price how would the math work in the sense would there be a value add more on the margin side so how does the value add work when you move from bromine to say moving up to something like clear brine or a bromine catalyst?
- Ranjit Pendurthi:** Obviously I am not putting it to the model that you have used but what clarification we can give is that the bromine derivative and the bromine raw material is not in 1:1 ratio so for example a flame retardant, one tonne of flame retardant will use 0.64 tonnes of bromine whereas a clear brine fluid may use only 0.2 tonnes of bromine and some product that we have to use 1.1 tonnes of bromine so there is a combination of products within the product portfolio in the derivative business so it is not 1:1 input and output vis-à-vis bromine.
- Sudarshan P:** Sure Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Alok Ranjan from IIFL Asset Management. Please go ahead.
- Alok Ranjan:** Thanks for the opportunity. Sir my question is on the clarification on the capacity utilization, so could you help me to understand like when we say that the capacity has increased by Rs.18500 Crores in FY2022 is it in sync with the salt capacity also or is it the processing capacity that has got increased so what I am trying to understand is like when we talk about capacity increase in the bromine is it like the land area on which we take the bit and that has got increased or the downstream processing that got increased by Rs.18500 Crores?
- Ranjit Pendurthi:** If I understood your question correctly the bromine capacity has gone up by doing two things. One is the production units itself have gone up right so the processing units have gone up, the second one is as the investors and the market is aware, we did a capex, a year-and-a-half ago where we did increase the size of the brine field and the reservoir that obviously gives us more quantum of brine available for processing through the bromine plant. That is how it has gone up but having said that the salt and bromine are not correlated in terms of expansions so you can expand one without having to expand the others and vice versa.
- Alok Ranjan:** Sir when you say that you have increased the capacity eX the processing, Sir could you elaborate why it will not be in sync with salt you will be using the water and then you will be getting the salt and on which you will process it further so could you help me understand why the salt capacity will not automatically get increased?



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- Ranjit Pendurthi:** So that possibly we may have to walk you through a little bit more on how we run the process itself the brine field, so maybe we can take that on a separate one-on-one call.
- Alok Ranjan:** Sure. The second question is on the utilization. I think nine month bromine number you have given around 14071 metric tonnes if I am right?
- Raghunathan R:** Yes correct.
- Alok Ranjan:** So if I normalize it and use the base number for the capacity as 28500 I get capacity utilization percentage as 65% to 66% but you said that 75% is the current utilization so is it like the Q4 run rate is sharply higher compared to what we have seen in nine months?
- Raghunathan R:** Yes. Q4 production will be higher. As compared to nine months production with annual capacity to get 65%.
- Alok Ranjan:** Is this led by increased offtake from China because I believe that domestic might be running at similar kind of pace so is this capacity utilization increase because of increased exports to China?
- Ranjit Pendurthi:** Not necessarily I think market both domestic and export remain firm so like I said some part of this has been diverted to the domestic market and there is enough and more I think absorption at the domestic level at the moment.
- Alok Ranjan:** Got it Sir. Second question in terms of pricing generally we have a rolling pricing basis and obviously as you explained there is no direct correlation in terms of how the spot market behaves but between domestic and exports do we follow a very similar kind of contract or structure in terms of pricing and the volume contract rolling over one year kind of visibility or there is some difference in terms of domestic and exports revenue realization on the bromine side?
- Ranjit Pendurthi:** Pricing within domestic and export is usually when we do the pricing for the customers, I think we try to keep in mind what is happening in either market so largely in line with each other given except for the variation in the freight obviously the domestic rates within the country are cheaper than the ones that you use for overseas but in terms of the strategy of selling itself I think the export business is longer term. Usually it is a one year and the domestic sales are generally anywhere between several quantity or a term contract so it could be between six months to a year for the larger players.
- Alok Ranjan:** Got it and Sir last question is on the Jhagadia plant so you are saying that the commercial sales will start before FY2024 so can we say that in the flame retardant in terms of a stabilization of the plant with the kind of a technology which you will be getting from your partner there will not be much



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challenge in terms of a stabilization of the plant or any teething issues will not be there in this product?

Ranjit Pendurthi: Well, we are making a variety of products. Flame retardant is one of them and so I think there is some time cushion that has been built into that startup date to address any of these at the moment unforeseen issues if they crop up.

Alok Ranjan: Got it and Sir till nine months SOP has not done well the sulphate of potash segment has not done well so how should we think about covering it in Q4, are there any issues or we are confident to make up for any slippage which might have happened in nine months FY2023 in Q4 for SOP segment?

Ranjit Pendurthi: SOP itself we have run the plant and we have produced 9000 tonnes so we do have finished stocks. At the moment as I mentioned earlier in the call we are negotiating with a few customers for the sale so we do have material that has been produced by the plant.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: What has been the realization growth in salts for nine months?

Ranjit Pendurthi: For the industrial salts it has gone up by about 30%.

Alisha Mahawla: In the near term for the next year do we think that the realization of the current levels seem sustainable?

Ranjit Pendurthi: We believe so yes.

Alisha Mahawla: Sure and the industrial salts were operating at full capacity?

Ranjit Pendurthi: Yes it is.

Alisha Mahawla: So for the next year the avenue for growth will be limited to the incremental utilization that we can achieve on the bromine side because the derivatives will come towards the fag end of the year or is there any other growth plans also for FY2024?

Ranjit Pendurthi: It would not be limited because I think like I said someone else had asked about this earlier in the call in a different way so I think our salt volume that we anticipate that is going to be delivered over the next two years. Our current manufacturing capacity will be able to cater to that and in addition to that as I mentioned we are adding another line for the end product so that should come up in the next six



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to seven months calendar year and that should take care of additional volume that we can go out and get in addition to what we are already contracted for.

- Alisha Mahawla:** What is the capex that we are doing for this increase in capacity on the salt side?
- Ranjit Pendurthi:** I think we had disclosed that in the DRHP and I think we are maintaining that. I think it is about Rs.10 odd crores.
- Alisha Mahawla:** Got it and the Rs.250 crores that we are doing for Greenfield how are we funding this?
- Ranjit Pendurthi:** I believe it is going to be a mixture of equity and debt.
- Alisha Mahawla:** Have we decided the mix?
- Raghunathan R:** We are looking at one third from the own funds and two thirds to borrow.
- Alisha Mahawla:** The bromine derivatives do these largely be for domestically or is this going to be a 50:50 split between the domestic and exports like bromine?
- Ranjit Pendurthi:** I think the domestic market for downstream derivates is still a growing one so there will be some volume offered domestically similar to what we do in sulphate of potash but it will largely be export focus.
- Alisha Mahawla:** I was asking that there will be some amount of customer approval also that we will need so what is the timeline or the process for the same?
- Ranjit Pendurthi:** Meeting customer quality you mean?
- Alisha Mahawla:** It will need customer approvals right before we can go out and supply?
- Ranjit Pendurthi:** Customer approvals in this particular space are not necessarily time taking. It is more about meeting a specific quality that they require and in that sense if we are able to meet the quality we should be able to get the business going and we are already working in the background with our lab to start making trials of these products derivatives and started approaching potential customers for approvals.
- Alisha Mahawla:** Okay that is on simultaneously?
- Ranjit Pendurthi:** Yes it will go on simultaneously correct.
- Alisha Mahawla:** With China we are the biggest market for the bromine derivative?



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- Ranjit Pendurthi:** No. I think the bromine derivatives will actually open up Asia and Europe and North America and Latin America. So I think it is a much broader end used markets because of the final product not intermediate volumes in most cases.
- Alisha Mahawla:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Riken Gopani from Capri Global. Please go ahead.
- Riken Gopani:** Thank you for the opportunity. Sir firstly I would like to understand that when you are adding this 14000 tonne capacity in bromine by when is that expected to be commissioned?
- Rajeev Kumar:** We are expecting this to be up and running before FY2024. We intend to have this in place in Q4 of next financial year.
- Riken Gopani:** It will be very much aligned with the expansion in the derivative capacity?
- Rajeev Kumar:** Yes.
- Riken Gopani:** Okay so next step basically your volume growth in bromine is let us say could be driven by capacity utilization improving from, how much can you go up for the current capacity from 75% that you target for this year in the next year in terms of utilization?
- Ranjit Pendurthi:** I think two things are going to happen one is the utilization we will keep moving up but also in addition to that the 75% base is 28500 tonne capacity so that capacity in Q4 we are increasing that so there is still quite a bit of room left for that expansion.
- Riken Gopani:** Got it. The second one is I am trying to understand so what you are saying is that for this year at least you will look at upward of 75% utilization so roughly that works out to be 7000 tonnes kind of volume in Q4 so that will be broadly as the Chinese economy is opening up one or are the new domestic clients that will pick up what will drive the offtake because I think you said you did Q3 at about 5000 tonnes so what we will drive this scale up in Q4?
- Ranjit Pendurthi:** At the moment just to, I have set the expectation right. The Chinese need to still come back to the market in terms of the offtake. I think they have started that but unfortunately our financial year ends in March so I do not know if they will be able to do that in the next 45 days but as the business as a whole we still believe that they will continue to open up and continue to keep taking the larger share of the volume and domestic market we do keep signing new customers but primarily we have relationships with the large agrochem players and I think their increasing requirement we are able to fulfill as well.



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Riken Gopani: Understood Sir. There is one question on the pricing, you mentioned that there are these rolling contracts and therefore you will see that impact coming through so at this point in time would you say that whatever sort of renewals had to take place to align your pricing closer to the current price scenario is being done or you would still see some of these impacts coming through in the next year in terms of the improvement in pricing?

Ranjit Pendurthi: Are you saying that if there was a price increase in the future would we see the impact of it in the next quarter?

Riken Gopani: No what I am trying to say is that based on the current spot pricing while you said that you do not totally deriving your price from that but there is a renegotiation which happens at the end of one year so some of them might have already been renegotiated until now but as more renegotiations going forward based on the current spot price of bromine do you see further improvement in realizations even on a current as is scenario?

Ranjit Pendurthi: I think it is a bit of a tough question to answer because we need to see bromine yes we are in the specialty chemical business, we are able to control cost, we are able to derive a significant advantage in terms of the production are being on the lower cost curve of production, etc., but having said that bromine is one part of the entire chemical industry and the entire business globally right. While we may be very strong in what we do, I think there also has to be an attention paid to what is happening globally on the chemical industry right. I think we are seeing some segments or may be large number of segments coming under some sort of pressure in terms of pricing, etc., right so how we do as a company is going to depend on a couple of things. One is what we do internally to ensure that our costs are continuously recalibrated right and the second one is to be able to move volume because that is also going to be important and the third one not the least but equally important is can we at least sustain the margins that we are aiming to make so I think as a company our endeavour will continue to see and ensure that at least that we maintain the margins that we currently have.

Riken Gopani: Understood Sir. That is very clear. Thank you so much.

Moderator: Thank you. The next question is from the line of Pratik Oza from Systematix. Please go ahead.

Pratik Oza: Good evening Sir. Thanks you for this opportunity. Sir my question was around 82% of our revenue comes from top 20 customers so in order to protect our revenue in case a major customer cancels our contract so is there a minimum volume offtake clause or a take or pay clause in our contracts with our customers?

Ranjit Pendurthi: As a company, we have never done take or pay contracts simply because that is a bit of a double-edged sword and I think we are still away from that but that also stems from our confidence that since



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the day we started business or shipments I think we have been fortunate to not have any customer cancel a contract till date. I agree with the perception that you can never say never but I believe that our shipments are spread out in such a manner that you will be quick to know if there is a problem with any one customer and that allows us the ability to then refocus or repurpose product.

Pratik Oza: Okay Sir. Thank you. That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil from Ostwal Investments. Please go ahead.

Nikhil: Sir I just wanted to quickly check on who is probably the competition for us in this line of business and what is probably our market share needs of the line of bromine and industrial salts within India?

Ranjit Pendurthi: Within India to be honest I do not think we have calculated a market share. I do not want to give you some numbers that I do not have but I think in terms of the capacity that we have, we would have a sizeable market share in the domestic market for sure and in the export market I think we are the largest in what we do both bromine and industrial salts.

Nikhil: Okay thank you.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Sir just one book keeping question. This employee cost has gone up on a Q-o-Q basis just wanted to understand what has led to this and what could be the new normal employee cost going ahead?

Raghunathan R: In Q3 as the company has rolled out its listing, we also had an ESOP scheme in place and we had to work out the liability on this ESOP shares allotted to the employees. So there is an amount of close to around Rs.7 Crores that is coming up on account of this which we had to provide.

Chirag Lodaya: So out of Rs.26 Crores, Rs.7 Crores is towards ESOP and Rs.19 Crores is a new normal employee cost right because historically we used to see Rs.9 Crores to Rs.10 Crores as a number?

Raghunathan R: The Board has also approved commission to the Managing Director and there is a proportion of this that is coming up as a liability for the nine months period which is accounted in this quarter.

Chirag Lodaya: Okay so near normal number could be how much Sir?

Raghunathan R: New normal number will be around Rs.40 Crores.

Chirag Lodaya: Around Rs.14 Crores?



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Raghunathan R: Rs.40 Crores for the year.

Chirag Lodaya: Okay thank you and all the best.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Ranjit Pendurthi: Thank you everyone for joining us on this first call since listing and we appreciate all your support and encouragement. I would like to thank all stakeholders, investors, analysts and the government for their support in enabling this to happen and we look forward to your continued participation and active participation in that in helping us grow your company and we look forward to meeting all of you over the next call. Thank you. Stay safe and be well. Thanks everyone.

Moderator: Thank you. On behalf of Archean Chemical Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.