"I G Petrochemicals Limited
Q4 FY'24 Earnings Conference Call"
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MANAGEMENT: MR. PRAMOD BHANDARI – CHIEF FINANCIAL OFFICER – I G PETROCHEMICALS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to I G Petrochemicals Limited Q4 and FY '24 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 of this date. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pramod Bhandari, CFO of I G Petrochemicals Limited. Thank you, and over to you, Sir.

Pramod Bhandari: Thank you very much, and good afternoon, everybody. On the behalf of I G Petrochemicals Limited, we welcome everyone on this call. On this call, we have SGA, our Investor Relations Advisor also. Unfortunately, Nikunj Dhanuka, our MD could not participate today's earning call due to some unforeseeable event. He has asked me to pass the regards to the stakeholders on the call. On the business performance, I hope everybody had an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange as well as the company's website.

We'll give you a quick overview of the recent development in the industry and how IGPL is moving forward. Post that we like to have a one-to-one questions in terms of the -- through operational and financial highlights. In the financial year 2024, the prices of the major bulk and the petrochemicals have remained under pressure, aggravated by the ongoing geopolitical crisis, slow recovery in the major economy and Red Sea crisis, which has extended to overall trade costs.

Additionally, inventory stockpile has further supressed the prices of major petrochemical directories and key feedstocks. As a result, the growth momentum of the numerous chemical companies has been impeded throughout the year. Demand from the end-user market has been mixed. The demand for the plasticizer of polymer clients remains subdued, while the UPR and pigment segment has recovered well in the later part of FY '24.

Despite multiple headwinds, we are elated to say that we have closed the financial year with a revenue of around INR2,130 crores. Though due to the price and the spread volatility, our profitability was impacted for the full financial year. Phthalic Anhydride is our primary product. We have not only pioneered it in India, but also imprinted our leadership position since its foundation. We produce Phthalic Anhydride, Maleic Anhydride and Benzoic Acid as well as the advanced plasticizer of DEP at our Taloja plant in Mumbai, near to Maharashtra.

We are delighted to say that our PA-5 unit has successfully completed in the last quarter. Post the expansion, our capacity of PAN, MAN and BA has been expanded respectively. Based on the current price, we are expected to have incremental revenue of INR500 crores from PA-5 for next financial year.

There are very few manufacturers globally that supply high-quality phthalic. IGPL is the largest producer in India and second largest in the world. It is important to note that Phthalic Anhydride is a key raw material.

It is consumed by a wide range of industries. We foresee the demand of this product to grow at an annual rate of mid-digit between 5% to 7%. We have sufficient capability to serve and cater the market, driven by its versatile application, as well as raw material intermediate for many downstream chemical users.

As highlighted earlier, we are actively pursuing to add new downstream products with a wide range of plasticizers to our product portfolio. We plan to invest approximately INR165 crores, excluding the GST, and expect this project to complete in the next around 18 months, post receiving all necessary approvals. Once the plasticizer facility is up, this project will consume around 30,000 to 35,000 tons of Phthalic Anhydride.

In essence, more than 50% or 60% of Phthalic Anhydride produced by PA-5 unit, which we have recently started, will be used for the downstream plasticizers. The captive consumption is expected to utilize in FY '26 and '27. On the operational, highlight for the quarter. For the quarter, the total revenue, including the other income, stood at INR563 crores, as against INR611 crores. The sales for non-phthalic business stood at INR36 crores. Export contributed around 13% of overall phthalic business.

EBITDA stood at INR36 crores, with a margin of around 6.3%. Profit after tax at INR9 crores for the quarter. For the full financial year, total revenue stood at INR2,130 crores, with a decline of 10%. The revenue from non-phthalic business has contributed around INR159 crores, and export contributed roughly 10% of total Phthalic Anhydride business.

EBITDA stood at INR136 crores, with a margin of 6.4%. EBITDA was impacted due to the lower spread between OX and PAN, which continued to remain between $120 to $150, and due to sharp decline in the price of Maleic Anhydride. The net profit stood for FY '24 at INR40 crores. Currently, the company boasts a robust balance sheet and maintaining a working capital cycle between 20 to 40 days, which is one of the best in the industry.

We anticipate this expansion will generate healthy cash flow and further strengthen the company's position. As a part of de-risking diversification, we aim to expand our downstream derivative product to increase the presence in the Indian domestic market. The expansion is expected to improve our operating leverage and boost the profitability and potentially increase the revenue for non-phthalic business.

Over the past two to three years, we have made some few strategic decisions to meet the rising demand of our product. These decisions are part of our holistic approach and strategy for providing better value proposition to our business partners, and to become a well-diversified chemical company. With this, I would like to conclude the presentation and open for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity. With regards to the pricing scenario of both our product, Phthalic and OX, and the spread between two, how has it been in the quarter gone by? And given the current situation environment, how do you perceive it to be in the next two, three, four quarters?

Pramod Bhandari: So, for the quarter gone by, Jan and Feb was subdued quarter because it is continuing from November, December, Jan, Feb. But we have seen the recovery in the start of March, which has been further improved in April onwards. So, earlier the margin has gone below $100, around $60 to $70. Now it has come back again to between $150 to $160, $170. So, I think we have already made the bottom. Now we are on the recovery path and we see gradually there is an improvement in the margin.

Rahul Jain: So, are you saying the spread is currently around $150 because the previous quarter con call, we said it was around $100 to $120.

Pramod Bhandari: Correct.

Rahul Jain: $100 to $120 has moved now to $150?

Pramod Bhandari: That, not for the quarter, but it has moved gradually from March onwards.

Rahul Jain: Okay. And sir, with regards to our PA-5, how is the capacity ramp-up happening? We started this plant somewhere in February. So, the utilization, the stability, etc., has to be planned?

Pramod Bhandari: I think utilization and everything is fine. I think we will be able to achieve in current quarter, the utilization of that plant and utilization will not be challenged. However, there are some things in terms of the change in the catalyst and the government requirements, you need to take shutdown of one or two units in the next one or two quarters. But for PA-5, we will be able to reach at 90% to 91%, which is the optimum capacity.

Rahul Jain: So, this year for this 53,000 tons plant, for FY25, can we expect a utilization of around 85-95%?

Pramod Bhandari: Between 70% to 85%.

Rahul Jain: Sorry?

Pramod Bhandari: Between 70% to 85%.

Rahul Jain: Between 70% to 85%. And sir, with regards to starting this plant, the overall cost of operation, both the fixed and the variable, the operating cost of phthalic anhydride, how is it moved from before starting of this plant and after starting of this plant?

Pramod Bhandari: Conversion cost which was around $100, it has reduced by around $10 to $15 per ton. I am talking about the conversion cost. Because the fixed cost has to be divided between all the five plants compared to four plants. However, in terms of the depreciation and in terms of the finance cost, because the debt which we have raised for this purpose will be reflected in the balance sheet. It has been started reflecting in balance sheet from 12th Feb onwards. So, typically, we will see the full reflection of that the depreciation which was INR42 to INR43 crores, now full year depreciation is around INR60 crores.

Typically, the finance cost was INR6 to INR7 crores, now it will be between INR9 to INR10 crores. Quarterly and annualized INR35 to INR40 crores.

Rahul Jain: So, when we say conversion cost, it will be between the spread and before the EBITDA? Is that, sorry, before the depreciation and finance cost? Is that correct?

Pramod Bhandari: No. Fixed cost, when I am saying conversion cost, what are the things required to convert the raw material from final product? It does not include the fixed cost like rental, administration cost and all that. Conversion cost like all the catalyst, energy cost, repair, maintenance, which is incurred actually at the factory level.

Rahul Jain: Sure. So, along with the fixed cost, we will have another $40-$50 dollars per ton of fixed cost to be added to the conversion of $90-$95?

Pramod Bhandari: 100%.

Rahul Jain: Okay.

Pramod Bhandari: I think next quarter results, you will be able to see full reflection because the last quarter, the PA-5 capitalization has started from 12th or 13th Feb onwards.

Rahul Jain: And sir, with regards to the scenario, how do you compare this cost versus our competitors both domestic and globally?

Pramod Bhandari: I think for IGPL, we are one of the lowest cost producers, not only because of the conversion cost, but also for the other like finance cost for the single size company of INR2,500 crores revenue. Finance cost is also, if you benchmark, it is 50% of that. And the total fixed cost, which all the plants are at single location, entire fixed cost is spreaded among the five plants.

And manpower more or less, except 5 to 10 guys remain same. In terms of the overall costing, we are one of the lowest cost producers. And our repair maintenance cost is also one of the best in the industry, because we have set up all the new plants based on the utility technology and general equipment.

Rahul Jain: Okay, sure. Sir, last one question on the global scenario on Phthalic side. We have been reading reports on two fronts. One is the naphthalene-based production since naphthalene prices have been going up, so typically some of the plants more so in Taiwan have been facing issues in terms of their cost of production. That is on the naphthalene side.

And on the other side, we are also hearing about closure of plants. So one of them being Aekyung Petrochemical that was supposed to close down in April and also Mitsubishi Gas also has plans to shut down the Phthalic. So, can you give some more details about the kind of capacities getting closed?

Pramod Bhandari: So basically, when the Phthalic price goes or margin goes below $100, we see a lot of drive in the international market. The conversion cost is around $150. They are not able to sustain. However, some guys who are operating in naphthalene, because the gap between naphthalene and benzoic was wide spread between $250 to $300. So a lot of guys who has a Phthalic plant based on naphthalene, who are the marginal player, whenever there is a gap increase, they started the production. Now because of the change in the naphthalene prices and increase in that, that margin or the production will reduce.

Number second, generally, these players are into the China side. Chinese government, because of the pollution and all that, is very sharply on these guys because they create a lot of pollutions. Plus it is not a technology efficient way of production of Phthalic. In fact, the Indian government is also looking at setting a best standard not to allow naphthalene-based Phthalic to enter into India. But overall scenario is looking promising because now the demand is also going up in the domestic market with all the sectors, which we were catering from the last quarter. Compared to last quarter, all the segments; paint, pigment, CPCs, every sector has shown or demonstrated good growth in this current quarter -- last quarter ended FY'24.

Moderator: The next question is from the line of Pranav Manohar from RoboCapital.

Pranav Manohar: So first question is, and what year can we expect to reach the INR3,000 crores mark of revenue? And till when can we expect to reach 15% of margins? That's my first question.

Pramod Bhandari: So revenue, I can tell you, but margin, it all depends on the market. The revenue, I think we will be expected to complete the plasticizer project between September to December 2025, next year. So from 15 to 18 months from now, which -- for plasticizer is still normal basis will add INR900 crores revenue, but you need to reduce the Phthalic, because Phthalic is what is internally consumed from existing plants to the plasticizer plant, so net revenue will increase by INR500 crores.

So today, we have a roughly INR2,100 to INR2,200, INR450 crores to INR500 crores is added because of PA-5. And another INR500 crores will take around INR3,000 crores to INR3,200 crores. So for FY'26-'27, full financial year, we'll see the revenue crossing INR3,000 crores.

For margin, I think it's a matter of the demand/supply, international market, you can't control the margin sitting in India. Because India is less than 5% of overall market. However, whatever is the international market margin, i.e., because of the operating efficiency, because of byproduct like Maleic, benzoic acid and now downstream into DEP is making around $100 over the international margins. So guidance is always relative rather than the fixed, because it's a link with the international market wise.

Pranav Manohar: Sure. But any guidance on maybe then just FY'25, or what are the margins looking like?

Pramod Bhandari: So I would not like to give any guidance right now, because we have just seen the recovery in the March month, which is spell now into April and May. So let's look -- I think it will be wrong to give the projections for 12 months. Wait for one or two quarters, we will have more clarity going forward.

Pranav Manohar: Okay. Sure. And the next question is regarding our debt guidance for preferably next two to three years, what are we looking to repay and overall basically guidance on that?

Pramod Bhandari: So, right now, we are net debt zero and because the cost of funding has gone up slightly in some, INR1 loan case, we intend to prepay around INR50 crores in next one or two months. So balance that, average cost is around 5.5% to 6%. And we continue to maintain that healthy mix of debt and liquidity, because if you are making 7%, 7.5% to 8% in treasury and we have cost 5.5%, it makes sense. Whenever the cost of debt cross 7.5% to 8%, we feel that it's the right time to pre-repay.

Pranav Manohar: Okay. And one last question. So what are the pan spreads looking in FY'25 and '26, what are your thoughts on that?

Pramod Bhandari: You're talking about not '24-'25, you're talking about '25-'26?

Pranav Manohar: Overall, FY'24-'25 and '25-'26 as well.

Pramod Bhandari: So I think I will not give you any guidance for the margin. But in general, if you look at the market for the last 10 years, margin moved between $100 to $400. So it is advisable not to look at the quarterly margin. Look at the average of 5 years, which generally coming around $150 to $200. Last 10-year average if you take it is between $150 to $200.

Pranav Manohar: Right. And we are looking to maintain that as well, right, for next 1 to 2 years minimum?

Pramod Bhandari: Subject to the market. If market is $100, we will have between $200 to $220. If market is $200, we will be having between $300 to $320, gross margin, I'm talking about.

Pranav Manohar: Okay. Got it.

Pramod Bhandari: $100 over and above the market.

Moderator: The next question is from the line of Aditya Khandelwal from Securities Investment Management Company.

Aditya Khandelwal: Sir, if I've to understand the total world capacity of Phthalic Anhydride, how much will be from naphthalene, how much would be from Ortho-xylene?

Pramod Bhandari: So typically, 75% to 80% capacity is based on the Ortho-xylene and around 10% to 15% majorly in China is based on naphthalene. Naphthalene is not naphtha, which generally people correlate it. Naphthalene is the byproduct of steel plants. It is not naphtha. It is naphthalene which is a byproduct of steel. And this naphthalene used to produce and there is a wide gap between OX and naphthalene. This is not the efficient technology plus it is more polluted and the conversion cost is much higher than the OX conversion to Phthalic.

Aditya Khandelwal: Sir, you mentioned that there has been shutdown in capacity which are manufacturing from naphtha base, but have you seen shutdown in capacities which are based on Ortho-xylene?

Pramod Bhandari: There are some, because it needs to be looked at not an individual plant, but overall capacity as a part of global strategy, its global players look at they are refined, become petrochemical and they even decide whether they need to run it across some of the players taking the temporary set down, some of the players decided to permanently shut till is an improvement in the market. It all depends -- but naphthalene, we have seen that now the lot of plants are planning to close again. One because of pollution and second, the prices of the naphthalene have gone up.

Aditya Khandelwal: Okay. And sir, in terms of which we have to understand domestic scenarios, what would be our capacity currently after this expansion for Phthalic Anhydride?

Pramod Bhandari: We have the capacity -- we already have a capacity like 275,000 ton of Phthalic. Around 8,000 to 8,500 ton of Maleic Anhydride and 1,000 to 1,200 ton of Benzoic Acid and 8,400 ton of DEP.

Aditya Khandelwal: And what would be the capacity of a competitor? And another customer, which are backward integrated into manufacturing targets, so in total...?

Pramod Bhandari: New customer enter who entering into the market. I understand the capacity around 90,000 ton and for Thirumalai I think they have between 17 ton to 140 ton. They have not published anywhere the capacity, but I understand 120 ton to 130 ton is their capacity right now.

Aditya Khandelwal: Okay. So the domestic capacity will be around 6 lakh tons for India, right?

Pramod Bhandari: Not exactly. 230 ton and 275 ton.

Pramod Bhandari: Around roughly 550 ton to 600 ton.

Aditya Khandelwal: And what should be the total domestic consumption currently in India Phthalic?

Pramod Bhandari: It's between 500 ton to 550 ton.

Aditya Khandelwal: And what is the percentage of imports generally happens because we saw a dip in imports bearing...

Pramod Bhandari: Typically import earlier was around 10,000 to 12,000 ton per month. But one year was downstream, who has done the backward integration. So he stop the import. Now the import is around 3,000 to 4,000 ton per month, which is half from earlier import, because once you start your own facilities you don't need to import it.

Aditya Khandelwal: Sir, generally the import spread with the import that we have made and what we make, is there a big difference?

Pramod Bhandari: No, -- there is no difference. Generally, the smaller players or the medium players can't import, because the logistic cost typically is very high. So when we are importing, we need to import in a big quantity, so generally, imports are not done by any of the small player or medium player. Big players used to do, right now also, it is coming from China, Taiwan, Korea, but very small quantity, now 3,000 to 4,000 ton. But we also export around 10% to 15% of our product. So it creates equilibrium in the market.

Aditya Khandelwal: Okay. And sir, just one question. So with so much capacity coming in on Phthalic in domestic markets, do you foresee a situation that the spreads would remain lower than usually, because of so much capacity coming in and the demand not meeting the supply?

Pramod Bhandari: I understand. First, I understand that. First you have to understand that the margin is not linked with the Indian demand supply and capacity, its linked to, diesel, Gas oil and gasoline. The margin is $20 or $30. That is the line produce higher, lower in any difference to the international market margin, no, because in overall it is less than 3% of total capacity, similarly in phthalic also the margin is determined by the international market price. You may have competition. You can always say that the over the international market margin, if there is a competition, you make $80 or $100, $120 or more the market price.

Aditya Khandelwal: Understood, sir. And sir, what was the capacity utilization for us this year? Are we reoperating at 100% utilization?

Pramod Bhandari: We are operating roughly 85% to 90% of our unit-- but some of the units will need to take every year the shut down for change in the catalyst or with general repairing maintenance. And sometimes, you need to shut down for the boiler inspection, because there is a regulation that we need to have an inspection every 3 years for the boiler. So, based on that every year one or two quarters we take the shutdown for one unit for inspection normal routine, repair and maintenance as well as change in the catalyst.

Aditya Khandelwal: Understood. Thank you for answering the questions.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Thanks for the opportunity. I have two questions. Sir, first on the plasticizers side like we have been putting up the capacity of DOP, DINP. We already have DEP. So if you can just help us the application-wise where these products would be going? Who are the competitors or the other producers of the same product in India as well as whether the margins should be better than our existing DEP? So some sense on that could be very helpful.

Pramod Bhandari: So basically the plasticizers is less capital intensive project where you spend INR160 crores to INR170 crores while your revenue will be INR900 crores. So when you look at the overall margin on the revenue it is 5% to 7%, but when we look at INR900 crores, 5% to 7% your payback period is less than 3 years. The capital turnover ratio in the plasticizer is very high. By spending INR170 crores you are getting INR900 crores revenue which is more than 5.5 times that is one.

Apart from IGPL which is setting up plasticizer projects various type of plasticizer There are other players, bigger players in the market like KLJ and Payal, but IGPL will be the third largest player after setting up the capacity. We are planning to set up some generalized plasticizer like DOP and then some specialized plasticizers.

So overall, when you look at margin, it ranges between 5% to 10%, but we look at from the product period point of view IRR point of view which is very lucrative because your revenue multiple compared to the capex is 5x plus. And in terms of demand I think India is self-sufficient. The demand is growing between 7% to 8% for the plasticizer and indirectly linked with the Indian economic growth.

If India continue to grow at 7% to 8% it has generally 1 is to 1 of the correlation. So it continues to grow and it has multiple uses in the application. Everywhere which you can see the plastics, whether the fragrance, the roads, infrastructure, construction, pipeline, rubber everywhere different, different plasticizers have been used.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Yes. Thank you sir for the opportunity. First question as we all -- as it was rightly mentioned that there are some capacities globally which are getting shut down in March and April which has led to like a spreads improvement. So this spread improvement is based on this -- so this phenomena or the demand itself in the system has gone up?

Pramod Bhandari: It's both way. Once the margin goes down some of the capacities which are marginal and which has a convergence cost higher than the margin then they tend to shut down. Number second when they shut down then it creates an equilibrium in the market and when the demand come up, then we see that there is not much supply available, then automatically gradually you see the improvements.

This is a typical cycle for all type of commodities as well as chemicals. If the margins are too low, some unit will shut down. Then demand will go up over a period of time and we see the gradual improvement in the margin.

Aditya Khetan: But sir, what if this capacity? So they -- so now the global spreads have moved up. So what if this capacities now restart? So can we assume that a spreads could remain constant or there is a risk, again, it can go down?

Pramod Bhandari: I think the overall demand has impacted because of the geopolitical issue, because of the Russia-Ukraine war and other geopolitical issues. And deficiency of the gas in the German market because a lot of customers to whom we are selling our product they sell to Europe. Now we have seen like pigments are used to sell 40%, 50% product in Europe. We have seen dumping the demand for probably first or second quarter. Now we have seen they have again come back to 80% to 85% of capacity and we expect demand to continue to remain robust from European market and the US markets.

Aditya Khetan: Got it. Sir, on to the capacity expansion so net revenue addition you mentioned that is around INR1,000 crores. Sir, if you can recalibrate how this INR1,000 crores figure will be added to the top line?

Pramod Bhandari: So it will be around INR450 crores of phthalic and around INR50 crores of Maleic, Benzoic Acid and INR900 crores will be the various type of plasticizer. But you need to reduce INR400 crores of Phthalic which will be used. So net-net plasticizer will be INR500 crores, INR450 crores will be Phthalic and INR50 crores will be the Benzoic Acid and Maleic Anhydride.

Aditya Khetan: So for Maleic Anhydride you said it would be INR100 crores to INR150 crores?

Pramod Bhandari: It is INR50 crores, not INR100 crores. I'm talking about incremental. Right now, the capacity is around 8,000. Today, the Maleic Anhydride prices are again 20% lower than Phthalic. So overall realization is lower. Typically historically it is 20% higher than Phthalic. Only there is improvement in the Maleic prices based on the historical benchmark. Our EBITDA will go up by INR25 crores to INR30 crores.

Aditya Khetan: Got it. And sir, this 30 to 35 so this figure of 35 K tons PAN consumption, how much is the ratio like at peak utilization we are expecting -- so 35,000 tons of PAN will be consumed?

Pramod Bhandari: If we are operating at full capacity of 75,000 tons. So typically 32 to 33 is the convention of Phthalic, but it depends upon what combination we are using. DOP has a different ratio. DINP has a different ratio. I'm telling you the weighted average 30% to 35%.

Moderator: The next question is from the line of Munzal Shah from Antique Stock Broking.

Munzal Shah: I have a couple of questions. One is also sourcing of your raw material orthoxylene. So at full capacity from where are you sourcing this raw material?

Pramod Bhandari: Typically we source around 15,000 to 16,000 tons from Reliance and around 5,000 to 6,000 tons we are importing from the international markets.

Munzal Shah: And what is the scenario, sir, for this Ortho xylene since there will be further capacity coming up in India. So do we have enough supply of Ortho xylene or the dependence on import will increase?

Pramod Bhandari: I think right now, the capacity which we are operating, it will be sufficient for the existing players, but if you are adding a new plant, you need to import because the new capacity has been added. Although some spare capacity they have -- but it depends upon when they will start. So in the time they start, it is their call, ultimately, beyond that in general answer, we are importing typically 3,000 to 5,000 tons a month. So now we need to look at that if there is a further requirement, we need to import it, and it is easily available in the international market.

Munzal Shah: And any of the Ortho xylene capacities are coming up globally, sir?

Pramod Bhandari: In global market, there is no separate Ortho xylene capacity all the bigger player who has a refinery from petrochemical. They are producing Ortho xylene. So Ortho xylene players will not expand their own capacity. It's part of refinery from petrochemical complex.

Munzal Shah: Sure. I understand. But is the -- within that petrochemical cycle, would Ortho xylene also be produced more? I just wanted to understand that.

Pramod Bhandari: I mean right now sufficient quantity of Ortho xylene is available. There is a way through which we can increase the ratio of Ortho xylene because the mixed Xylene converted from the Naptha go into Paraxylene and Ortho xylene. If there is demand enhancement, somebody will put the refineries we don't have right now the PX and OX.

They can set up the unit as a part of the petrochemical complex help produce OX and PX. OX is around 15% to 20% and PX is around 70% to 75% when we set up newer plant as a part of the mixed xylene conversion into PX and OX.

Munzal Shah: And secondly, sir, I wanted some update on the user industry. So currently, what is paint and non-paint for Phthalic?

Pramod Bhandari: Paint is roughly 10% to 15% or sometimes 20%. CPC is around 15% to 20%. So paint, CPC and Plasticizer put together is 50% to 60%. Balance comes into the DEP, specialty UPR, which comprises 20% to 25%.

Munzal Shah: So paint is only 10%, 15% right now.

Pramod Bhandari: 15%. It's moved between 15% to 20%, depending upon the season. In Deepavali season when there is, pre- Deepavali season, like say April, May, June, paint has a good demand because they have enough process of production of paint, which is used near to the Deepavali. CPC and the plasticizer have demand throughout the year, speciality also have a demand in the second half of the year.

Munzal Shah: And two more questions, sir. One is with regards to suppose if we have surplus capacity in the domestic market maybe one, two years down the line, what is the export market that you're looking at like -- and the margins?

Pramod Bhandari: We typically export around historically 20%, but right now, 10% to 15% we export depending upon assuming the target area for that is Middle East, sometimes to Africa, Egypt and that, and generally 80% is Middle East and balance 20% is other areas.

Munzal Shah: Okay. And the margins in exports case?

Pramod Bhandari: I think you can't standalone, calculate the margin because you need to draw the export fulfilment under EPCG. So there are a lot of things. There are a lot of things you need to calculate, but generally, it is slightly lower or you can say benchmark against the domestic market.

Munzal Shah: Sure, sir. And last question is, sir, outlook Maleic anhydride because I believe currently, it's in losses. So what would be the outlook on Maleic anhydride going forward?

Pramod Bhandari: For us, we are not making any losses in the Maleic anhydride. Maleic anhydride we are producing from wash water. So whatever is the revenue is the EBITDA for us. If somebody is producing its own N-Butane, of course, because the cost of the butane is very high. And the price of the Maleic anhydride has gone down 20% below the Phthalic, which is not the case historically. So I think we are looking at '25 onwards, there will be an improvement into the Maleic price.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: So currently, as the price -- the spreads are around $150 to $170. And we have an advantage of being a low-cost producer and $80 to $100 advantage, sir does this mean that our spreads for I G Petrochemicals are near $250 kind of range?

Pramod Bhandari: Sorry, can you repeat your question?

Madhur Rathi: Sir, the current spread of Phthalic and OX are near $150 to $170 as you mentioned. And we are the lowest cost producer with $100 advantage. So does this mean that our spreads are around $250-odd?

Pramod Bhandari: Whatever is the market margin because of operating efficiency and the value, we are making roughly $100 above the market margin. if margin is $150 we will be making around $250 to $260.

Madhur Rathi: And current margins are around $150 to $170, right?

Pramod Bhandari: Current margin of market is between $150 to $170.

Madhur Rathi: Okay. And sir, next question, would you share the Maleic Chinese were going into a ban of the single-use process and demand was going to come very strong. So are we seeing some kind of green shoot in this segment right now?

Pramod Bhandari: Chinese have set up a lot of capacity of Maleic anhydride . In view of conversion of Maleic into BDO to PBAT and PBT, but they postponed the production of PBAT and PBT, which is used for the single-use plastics mills. So they have postponed it to January '25. So we expect margin of Maleic to improve post Jan 2025 onwards.

Madhur Rathi: Okay. So, sir, this -- the way Chinese are set up, they are not producing Phthalic and the byproduct. Maleic is getting sold into the market, they are producing it through a different route, right?

Pramod Bhandari: Correct.

Moderator: Thank you. The next question is from the line of Akshay Kothari from JHP Securities. Please go ahead.

Akshay Kothari: I was going through one of the reports by SNAP Global. It reads out that the REACH Regulation in the European Union are calling for gradual replacement of phthalic-based plasticizer. So my understanding, phthalate goes in plasticizers, paints, and resin. Do we foresee any slowdown in demand for phthalic as such only? And what is the substitute product, which these guys are using?

Pramod Bhandari: So there are phthalic, which is -- there are plasticizers which is produced without phthalic, but there is very limited quantity because some of the plasticizers were phthalic is used, they can't use non-phthalic based plasticizers like pigment, PVC, and all that. Having said that, in the new plant, which we are setting up, we have a flexibility to not only produce DOP, but also DOTP, which is non-phthalic plasticizer. So we have plant in such a way they have flexibility to procedure both phthalic and non-phthalic based plasticizer.

Akshay Kothari: That is on the plasticizer front, which is, I think, not a very big problem for India. Indian plasticizer demand is growing, but I'm talking in terms of phthalic as an Indian consumption for plasticizers. So, is it getting greater?

Pramod Bhandari: No, not right now because in India, the plasticizer industry take 10% to 15% of the phthalic, otherwise phthalic is going to replace plasticizer, PVC, pigments, specialty chemical, agrochemical, photofilms, UPR. It is used in more than 22 industries. Plasticizer is one of the industry and all the industries, including the paint, plasticizer, pigment, PVC, CPC, everybody is going up 8% to 10%. We won't see a big challenge except there are some European countries, which are not using plasticizer based on phthalic. But India, I think it will take again 15 to 20 years. And we at our new plant, which we are setting up, we have flexibility to use both phthalic based and non-phthalic based -- produce non-phthalic and phthalic-based plasticizer.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So my first question is regarding the OX. So I missed on your consumption for Ortho-xylene. So can you repeat that?

Pramod Bhandari: So we typically got around the Phthalic production will be around 92% of the Ortho-xylene equivalent to. So typically, 10,000 to 15,000 tons we're mined from domestic market and balance 5,000 to 6,000 tons required, we import. Generally we import 3,000 tons minimum, maximum way up to 6,000 to 7,000 tons every month.

Pradeep Rawat: Okay. 3,000 to 6,000 to 7,000 import every month?

Pramod Bhandari: Yes.

Pradeep Rawat: So what is the current like capacity for OX right now in India?

Pramod Bhandari: In India, the capacity is around 330 to 340, but at peak, it can go up to 450. Nameplate capacity is operating at around 330 today.

Pradeep Rawat: So given the increase in capacity of Phthalic Anhydride, so it should definitely lead to higher consumption of OX. So how are you planning to source OX?

Pramod Bhandari: We have model based on the 66% of the Phthalic for domestic and 33% in some of the import market.

Pradeep Rawat: So don't you see like crowding out effect with respect to OX like other players also going to demand…

Pramod Bhandari: I think it -- I understand your point, but Indian capacity is less than 4% in global markets. So in the world, the capacity of the Phthalic is 6 million tons operating at 4.4, 4.5. Similarly, OX capacity is also 5 million tons plus. So when you're talking about the global market, so small, small quantity required by the Indian players does not make any dent or difference into the international market.

Pradeep Rawat: So what is the delta between like when we import and when we like source it domestically, what is the price differential between that?

Pramod Bhandari: If you do generally on term contract than $15 to $25. And if you buy a spot, sometimes you get the cargo at lower than the domestic price some time at higher than the domestic price. So, most of the things are based on how you are procuring, to whom you are procuring and timing of your procurement.

Pradeep Rawat: And the second question was regarding like in earlier calls, you mentioned that Greenfield plant, similar to PA-5 would cost somewhere around INR600 crores to INR650 crores with a capacity of 53,000 ton per annum. So our competitor has expanded a much larger capacity at a similar cost bracket. So I just wanted to know what advantage we got over them in terms of efficiency?

Pramod Bhandari: We set up the plant of 53,000 tons in typically less than INR350 crores. Typically, if you set up at the green field to the cost of INR500 crores to INR600 crores. I'm not aware about the cost. But typically, if you are setting a 90,000 ton it has INR800 crores to INR900 crores.

Pradeep Rawat: Yes. Our competitor Thirumalai Chemicals expanded similar like 90,000 tons per annum for INR550 crores, I think so?

Pramod Bhandari: But I don't have a ready number with that, but you can refer it to the KLJ. They are set up at INR800 crores to INR900 crores and 90,000 tons. I think it is there in the environmental ministry or somewhere in the document.

Pradeep Rawat: Yes. Thank you for that. And thank you and all the best for your future endeavours. Thank you.

Moderator: The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: So I have 2 questions. So one, you mentioned that the spreads have recently spent around 150, 170. Could there be a reason of the current container shortages or the freight rate going up because of the Red Sea disruptions because of which the material movement has become slightly lesser of the transit has gone higher and because of which we have seen the standing of the spread or it is because of the demand gone up to the international market, and we have seen such a spread getting strengthened?

Pramod Bhandari: A couple of factors together. I think first, a lot of plants either taken a temporary or permanent shutdown. Because of that, the demand has come up and no regular supply was there. That is one of the reasons for improvement. And second, it can't sustain at that lower where it is lower than your conversion costs. So nobody will operate the plant if you are getting the cash losses.

Number second, your point is right because the freight cost typically has gone up between 50%, 60% to 70%, when you are importing plus the time is out so it's a trade, transportation, insurance, Forex, logistics, tankage, everything put together, we need to incur around 5% to 7% extra. So because of that for any marginal player, it is not advisable to import until unless you're importing 5,000 tons to 10,000 tons.

Nirav Jimudia: So sir, let's say, if we are earning $100 because of operational efficiency over and above those global margins. Currently, is it fair to presume that we may be earning $20 to $30 extra just because the freight advantage is coming in our way and those materials are not coming to India?

Pramod Bhandari: We can't calculate it today. But it is also applicable for us when we are exporting. So, it is neutralized. You are exporting the similar also the product in Middle East market, which is around 10% of our total products.

Nirav Jimudia: So currently, and so we are exporting out or...

Pramod Bhandari: Currently we are exporting around 10% of our product overall for FY'24.

Nirav Jimudia: Second question is last quarter our sales volume were close to 47,000 tons, 48,000 tons. So have you seen any improvement because of the commissioning of PA-5 this quarter and if yes, how much was the improvement in percentage terms?

Pramod Bhandari: Typically, it is because the PA-5 was started in mid of Feb. So, as such, there is no direct impact. But in terms of the overall value, 5% to 10% has changed compared to the last quarter.

Nirav Jimudia: So possibly this quarter, our production would have exceeded or the sales would have exceeded 50 KT more or less.

Pramod Bhandari: Yes.

Nirav Jimudia: Last bit from my side is we generally have catalyst change every year because we have 5 to 4 plants and the recently commissioned probably whatever time before they get touched. What is the annual cost we incur for the catalyst and does that charge at the P&L level or we do we capitalize that amount?

Pramod Bhandari: No. First, we incur between INR8 crores to INR10 crores for the change in the catalyst. For the energy cost, which we incur like LSFO, which we are planning to now replace with the natural gas or the diesel, that is directly charged to the P&L.

For the catalyst cost, it will spread over the period of three years because catalyst life is three years. It will be wrong to take into P&L for one quarter. So every catalyst is spread over the period of three years or 12 quarters and balance cost like energy and all which is required to start up the project and all is directly charged to the P&L.

Nirav Jimudia: So let's say for FY'24, how much of the cost would have passed through the P&L for catalyst?

Pramod Bhandari: I think INR4 crores to INR5 crores -- no, not catalyst, for the energy. And the catalyst typically, when we look at all together, INR7 crores to INR8 crores of the catalyst cost coming sometime I think INR15 crores, sometime INR20 crores in a year it is coming into the P&L.

Nirav Jimudia: Correct. So you mentioned that once we switch to natural gas, this LSFO cost won't be coming on. So there would be some savings. So this cost of INR4 crores to INR5 crores what we incur on an annual basis, how much savings…?

Pramod Bhandari: Typically not, we incur on energy which include LSFO, which include the diesel, which include the electricity, electricity duty, we incur around roughly -- total if you are talking about INR45 crores to INR50 crores. Post PA-5it may be slightly higher. So when we convert into natural gas, it will save minimum 20% of the total cost, roughly INR5 crores to INR6 crores per year.

Nirav Jimudia: Okay. So this would have a savings of INR5 crores to INR6 crores on an annual basis for us?

Pramod Bhandari: Yes. Once it is fully operationalized on natural gas.

Moderator: The next question is from the line of Aditya Khetan from SMIFS Institutional Equities.

Aditya Khetan: Sir, In this fiscal, in FY'25, in which quarter we will be taking the catalyst change?

Pramod Bhandari: As of now, we have not decided. Maybe for the first or second quarter, not only for the -- it will be for change in the catalyst, but also it is for the purpose of overall repair maintenance because we take overall repair maintenance and catalyst change together. And sometime it is also along with the boiler because every three, four years you need to get the boiler check from the boiler inspector.

Aditya Khetan: Okay, so we should factor in slightly lower volumes in next quarter because of this catalyst change?

Pramod Bhandari: I think rather than for the quarter, for a year you need to assume the two plants are down, for a year. Because quarter, you can't predict which quarter today.

Aditya Khetan: Okay. Sir, on to the plasticizer side, sir, what is the peak utilization level here, whether it is 90% or 95%?

Pramod Bhandari: It will be between 90% to 95%. There are some flexibility in that. It can go up to say 80% to 85%, 90% also. But right now we are talking about the 75,000 tons. It can go up to 1 lakh tons. There is an inherent flexibility inside the system. First, we are planning to set up that and then gradually based on the requirement we will debottleneck the capacity.

Aditya Khetan: Okay. And this new plasticizers of the DINP, DOTP, so as compared to our -- so current basket of DEP, so the realization are higher or it is all…

Pramod Bhandari: It's a different, different product. It has seven, eight types of plasticizers. DEP has different margins. For weighted average, it is expected to generate 5% to 7% of PAT on revenue.

Aditya Khetan: Sir, sorry, I missed that point, 5% to 7%?

Pramod Bhandari: 5% to 7% of PAT on revenue. And if you are targeting revenue of INR900 crores, you say around INR50 crores to INR60 crores on the investment of INR160 crores to INR170 crores. And it also depends upon the price at which you are transferring the Phthalic. If you are transferring the Phthalic at the market price to whom you are selling the customer, then margin will be different. If you are transferring the Phthalic at the cost or say the lowest selling price, then the margin will be different.

Aditya Khetan: Got it. And sir, this plasticizer capacity, this will be starting by 2026?

Pramod Bhandari: '25 end is what we are targeting, September to December '25.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, what is the domestic demand for plasticizers in India?

Pramod Bhandari: Plasticizers has typically demand of between 3.5 lakh to 4 lakh ton. It may be now 4.5, but last year I have checked it was around 4.4 million ton. So it is growing at 8% to 10% percent. And plasticizer is not only one plasticizer, there are multiple, 10 to 15 type of different plasticizers, all put together.

Madhur Rathi: Okay. And sir, our capacity would be 75,000 tons, right?

Pramod Bhandari: Correct. 8,400 tons is already for the DEP which we are operating.

Madhur Rathi: An additional to that to 75,000 tons. So what will be the biggest player in this segment? And what will be their capacity?

Pramod Bhandari: I think it is KLJ and capacity is between 2,00,000 to 2,50,000 tons, you can check in their website.

Moderator: Ladies and gentlemen, due to time constraints, that would be our last question. I would now like to hand the conference over to the management for closing comments.

Pramod Bhandari: Thank you, everyone, for joining us today. My voice was not clear because I'm down with the cold. We appreciate your time and interest in the company. If you have any further query, please free to contact our Investor Relation Advisor, SGA, who can directly send the mail to us. Okay. Good bye.

Moderator: On behalf of I G Petrochemicals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.