



# “Archean Chemical Industries Limited Q4 FY23 Earnings Conference Call”

**May 29, 2023**

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**MANAGEMENT:**

**MR. RANJIT PENDURTHI – MANAGING DIRECTOR**  
**MR. RAGHUNATHAN RAJAGOPALAN – CHIEF FINANCIAL OFFICER**  
**MR. RAJEEV KUMAR – DEPUTY GENERAL MANAGER, FINANCE**  
**MR. DAXESH MANKAD – EXECUTIVE DIRECTOR**



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**Moderator:**

Ladies and gentlemen, good day and welcome to our Archean Chemical Industries Limited Q4 & FY23 Earnings 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 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to the Management Team for "Opening Remarks." Thank you and over to you.

**Ranjit Pendurthi:**

Good afternoon, ladies and gentlemen. We wish you all a warm welcome to our Q4 & FY23 Earnings Call. I hope you're all keeping safe and healthy.

On this call, I'm joined by Mr. Raghunathan – our CFO; Mr. Rajeev Kumar – DGM (Finance), Mr. Daxesh Mankad – our Executive Director and SGA, our Investor Relations advisors.

I hope everyone had an opportunity to go through the financial results over the weekend and investor presentation which has been uploaded on the stock exchange and our company website as well.

I'll give you a quick snapshot of the industry overview and the Company's recent developments and then Mr. Raghunathan – our CFO, will walk you through the operational and financial highlights of the company.

So starting with the industry as such, we're happy to say that we have closed the financial year on a positive note. It has been an eventful year for the Archean team, where we got listed on the BSE and NSE exchanges, and we redeemed the entire NCDs and reported a strong business performance for the full financial year.

On this occasion, I would like to thank all the stakeholders for their trust and support and for our own team at Archean, who have held the hand and supported the journey to get listed.

We all have been a spectator of many uncertain events during the year and have curtailed the growth momentum of many industries across the globe and the chemical industry in which we are was no exception. China, the world's largest producer and consumer of various goods, has been facing multiple hiccups due to restricted COVID-19 policy in the last couple of quarters



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and that disrupted the overall supply chain as well across industries, resulting in a demand/supply mismatch and instability in the prices.

Coming to our own company performance, we're glad to inform you that the company was able to report a healthy performance for the year, registering a revenue of Rs.14,852 million or Rs.1,485 crores for FY23 growth of 30% year-on-year basis.

Just to reiterate, we are the leading manufacturer of marine chemicals from India and specialty marine chemicals from India. Bromine, industrial salt and sulphate of potash are the key products in our portfolio. We are majorly export-oriented and the key geographies which we export to are Japan, China, South Korea, Qatar, Belgium and the Netherlands and many other geographies both in the Middle East as well as Far East.

Coming to the segment wise updates, to start with bromine, bromine is our primary product and contributes nearly half the total revenue. As you are all aware, we hold the leadership position in India's bromine merchant sales and are the largest exporter from India. We continue to hold that position as of FY23 as well.

It is important to note that bromine is widely used in pharma, agrochemicals, water treatment, flame retardants, additives and oil and gas segments. These industries, but only a handful of companies manufacture this product in India.

Demand continues to be strong for bromine in the first half of FY23, which has been partly negated, no doubt by staggered shipment in second-half of FY23. Due to the large client base that we have, we were able to divert the business to the domestic market, which continues to witness a healthy growth. We witnessed some aberration in the bromine price for the last couple of quarters as we discussed even during the January call. We believe the spot prices of bromine have been normalized to pre-COVID levels. Any sharp volatility in the price of bromine will have minimal impact on us due to contract-based business that we have engaged in and this varies from client-to-client based on size and scale of business of particular clients. For FY23, overall bromine business grew by 17% on year-on-year basis and production volumes stood near 19,000 MT.

Moving on to industrial salt. Industrial salt is another main product, and nearly another half of the total revenue comes from this product. So industrial salt, as you again may be aware primarily finds its application in caustic soda and soda ash on a global basis. The year gone by, industrial salt has performed well compared to the other segments due to higher volumes and improved contracted prices. Volume offtake for salt has been strong from all existing customers. We've also added a few customers in FY23, thereby increasing the volume vis-à-vis FY22 notably and we've received quite a few new enquiries as well.



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The capacity utilization for salt has been more than 100% for FY23 and is expected to sustain the growth momentum in coming quarters given the order book.

We're the only manufacturers of Sulphate of potash, natural sea brand in India. We are negotiating with a few customers and expect to increase production, which will reflect in next year's business performance.

On the capacity expansion, we continue to invest in expanding our capacity and capability. We are pursuing an existing plan and expect to commence to set projects within the planned timelines. We will be expanding our product portfolio of bromine performance derivatives like flame retardants, clear brine fluids and bromine catalyst at Jhagadia. This Greenfield site and expansion at Jhagadia is on track and expected to commence production by the end of FY24.

Coming to industrial salt, we will be adding additional capacity on the washing lines and increase by another 250 tons per hour capacity and is expected to come in the latter part of FY24.

So that's it from my side. Now I would request our CFO, Mr. Raghunathan, to run through the financial performance.

**Raghunathan R:**

Thank you, sir, and a very good afternoon to all the participants on the call. We are pleased to report a notable performance for this quarter that had just ended and also for the full year FY23.

Both bromine and industrial salt have reported reasonably good performance during the period as our M.D. has said.

To give a summary on the performance of Q4 of FY 2023, total revenue for this quarter was at 3,909 million and that's around 391 crores, a growth of 4% on year-on-year basis. Export market contributed around 70% and the remaining 30% is from the domestic market.

To say about the business mix, Bromine contributed around 45% and industrial salt contributed around 55%.

EBITDA for the company for the quarter of FY23 was at around 2,031 million, that's around 203 crores, giving a growth of around 24% on YoY basis. EBITDA margin stood at 52%, it is higher due to better realization in industrial salt as well as in bromine.

Net profit after tax for the quarter was around 1,368 million, growth of 67%, higher growth in PAT when compared to EBITDA growth is due to reduction in interest cost as a result of redemption of NCDs.



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Moving to the full year performance, total revenue for FY23 was at 14,852 million, a growth of around 30% on an annual basis. Export market contributed 73% and the remaining 27% is towards the domestic market.

Take you through the business mix for the full year, bromine contributed around 49% and industrial salt contributed 51%. EBITDA for the company for the full year stood at 6,785 million, a growth of 41% on a year-on-year basis and the margin was at around 46%.

Net profit after tax for the year stood at 3,837 million, a growth of 103% on YoY basis. Net profit growth has almost doubled due to reduction in the interest cost coupled with better realization in liquid bromine as well as industrial salt.

Moving on to the other updates, the net debt-to-equity stood at zero for the period as a result of the redemption of our NCDs with IPO proceeds.

And return on equity was 45% and ROCE stood at 39% for the financial year FY23.

I conclude the speech and open the floor for Q&A session.

**Moderator:**

We will now begin the question-and-answer session. The first question is from Sudarshan Padmanabhan of JM Financial PMS. Please go ahead.

**S Padmanabhan:**

So I have three questions. The first two questions will be kind of a circular reference. The first question is we talked about the bromine prices, being lower and that is primarily stemming from the higher the BFR inventory is what I've heard from the industry sources, I mean what I would like to understand from you is we have a long term contract which is helping actually. But as we move towards newer contracts, do we see the risk of prices being much lower than what it is today? And second is since our derivatives capacity is coming in later on this year in the third quarter, do we have visibility in terms of offtake or do we see risk on that?

**Ranjit Pendurthi:**

Thank you for the question. So I think you're right in your observation. The results obviously were coming from better prices of bromine. But having said that, the reality also is, as I mentioned, there are headwinds across the entire chemical industry. So, I think bromine is no exception. There is a large amount of destocking that is going on in the overseas market. And I believe that will continue through the next three to five months. Now, having said that, I think the domestic market continues to be firm. Yes, there is some pricing pressure on the product, but nevertheless, I think we've always maintained that our focus continues to be on maintaining the EBITDA margins, and at the moment, we don't see a problem with volume. On the second question regarding the derivatives, we have started addressing the market from a customer perspective on the offtake of derivatives. The plant is still in early stages of construction, so it will gather momentum for the marketing of these products, I think towards



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September, October of this year, so that will be at least give us four to five months before we start commercial production, so that would give us enough time to do that marketing.

**S Padmanabhan:** Two parts to it. One is, clearly we've seen the margins going up substantially and I think we are seeing transportation cost which is very critical for us and power cost coming down. So I would assume that partly your guidance of margins being healthy is also because of that. And second is on the SOP side. While the outlook looks quite encouraging, we have hardly been able to book anything this year. Is there anything that is going to be visible in the first quarter and what could be the quantum one can expect in the second half of this year?

**Ranjit Pendurthi:** So I think our margin just to reiterate, I think we've always said this in the past and we continue to maintain that. I think our margin target has always been in the 40%, 45% range give or take. So that I think we'll continue to aim to maintain that. Regarding Sulphate of potash, the market continues to be firm on the product demand side. We do have about 8,000 odd tons in stock that we will look to liquidate ASAP. We get in touch with a few customers and I think later on towards the year we will pick up the production again.

**Moderator:** The next question is from Sanjesh Jain of ICICI Securities. Please go ahead.

**Sanjesh Jain:** Few questions. First on the volume, can you give us the FY23 as well as Q4 volume for all this?

**Raghunathan R:** Bromine production for Q4 is at around 5,078 tons versus 5,121 tons in the previous year. And for full year the total production is around 18,900.

**Sanjesh Jain:** Your voice is actually going low.

**Raghunathan R:** For the full year, bromine production is around 18,950 as against 20,200 in the previous year. And coming to salt, yes, for Q4, total production is at 1.2 million tons versus 1.01 million tons for the previous year's quarter and for the full year, it's 4.02 versus 3.59 million tons.

**Sanjesh Jain:** And for SOP this quarter?

**Raghunathan R:** SOP for this financial year produced around 8,840 tons versus 2,400 in the previous year.

**Sanjesh Jain:** The second on the salt side, phenomenal performance, I think the realization is upwards of \$22 now. How should we see this salt demand and the growth with the new washery we can achieve what 5 mn metric tons per annum, that should be doable in FY25 full year, because I think it will start at the end of the '24. And what is driving this realization and how sustainable is it?

**Ranjit Pendurthi:** So thank you for the question Sanjesh. So, I think as you rightly said, our capacity expansion will come on towards the end of by FY24. So the benefits of that will probably accrue in



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FY25. Our intention is the capacity should match the demand at that point in time and given the fact that we have a very strong position in that segment in the Asian market, we would like to see that we're able to utilize it again at 100% in terms of production and sales. The second part of your question, I think the market is strong because the end user industry is I think continued to perform as caustic has a wide variety of uses, some major ones, some minor ones, but across the board, I think there's a good offtake because of the chlorine byproduct use in Far East and Middle East. Chlorine is a basic building block. A lot of the downstream pet chem products and plastic. So I think that's primarily the driver there and the fact that we have a long term relationship with many of the clients, I think able to see us perform both on delivery and on quality on a consistent basis. Our market share with each customer is something that we are trying to increase as we go forward.

**Sanjesh Jain:**

I was more concerned from the realization because if you look at the caustic prices are down from Rs.60 to now Rs.35 a Kg and if you look at soda ash also then multiple news and multiple locations, there is a pressure on soda ash prices. Considering that the end market is seeing the huge pressure on the realization, do you expect salt prices to sustain at the levels where we are today?

**Ranjit Pendurthi:**

I think more than half of volume is contracted out. So I think the realization will hold. The other half where we have shorter term nature contracts as has been typical in the past I think again the chemical industry itself is facing some headwind on the prices. So I suspect be some sort of a moderation, but nevertheless I think one point to keep in mind is what drives the requirement for our business in Asia, primarily the Far East is the use of chlorine. I think that's the driving factor here. So you have a lot of these guys who have expanded capacities on the downstream side. So I think we don't see too much of a challenge on that front.

**Sanjesh Jain:**

No, even there I think the prices are a massive stress, but point taken. Second on the bromine side of it, because your peers have really not changed materially their guidance on the bromine business for this calendar year. So how should we see for us in terms of bromine prices, because they have an advantage of selling downstream, the prices are less volatile, while we are largely into the elemental bromine, how should this year end for us, are we confident that we will be a flattish realization versus last year or do you think our realizations will come down to \$4? And what is the anticipation on the new contract signing for the long term in the bromine?

**Ranjit Pendurthi:**

So I think a fair question. Like we said, I think in the last couple of quarters, we have seen a fair amount of volatility as I mentioned during my introduction. So I think that headwind we will continue to face. But I think the good thing is again it's all about managing the customer and the expectations on one side domestic and the other one is the export market. Export market I suspect take at least four or five months to pick up. We will be doing some reasonable volume. But having said that, I think on the domestic front is where we are focusing more of the bromine volume at the moment. The average realization I think we expect it to be what we



have said during the investor presentations in the past should be in line with that I think what you've indicated.

**Sanjesh Jain:** One last bookkeeping question, this employee cost, I think there is a fair bit of mix in terms of the ESOP and Chairman Commission and all. So can you just report and tell what is the recurring part of the employee cost for this year and is this for this year or elevated employee cost will also be there for FY25?

**Raghunathan R.:** Employee cost, as I said, we have ESOP and the M.D. Commission also coming into it and the ESOP as a provision will continue for next couple of years. And so if you look at it as an average cost, it will be close to around Rs.75 crores per annum.

**Sanjesh Jain:** So that Rs.75 crores is the continuing which we should be build in the model, right?

**Raghunathan R.:** Yes.

**Moderator:** The next question is from Krishan Parwani of JM Financial. Please go ahead.

**Krishan Parwani:** So firstly a couple of clarifications on the salt business. I think we mentioned more than half of our business is contracted. So just wanted to check whether this realization jump that you've seen in salt, so this contracted part has also seen a jump and so that means for the next because I think you have two years contract, right so should we see a higher realization for this part for the next two years?

**Ranjit Pendurthi:** Thanks for the question. I think the prices that I mentioned that we have contracted have kicked in only in the fourth quarter of this year because the prices are generally contracted on a calendar year basis. So, yes, it would be out two years from there.

**Krishan Parwani:** So basically, your long term customers have agreed for the price like, great. And for the other half you have taken any price cuts or what have you done there?

**Ranjit Pendurthi:** I think we have some ongoing contracts which are still being executed over the next quarter or so. And then I think like I said, some of these are long term customers. So broadly we don't see the variation being too much on those contracts vis-a-vis the long term contract.

**Krishan Parwani:** So that was on salt. And on bromine, just a couple of clarifications. So I think we wanted to understand as in let's say the spot price of bromine is \$4 right and when you are renewing your contract, let's say the what discount you would be kind of getting into the contract, not the specific, but just a ballpark number should do?

**Ranjit Pendurthi:** Ideally, I think our executive director doesn't like to give any discounts, but having said that, I think at the moment we're not seeing a pressure for people to discount beyond the range I have indicated. I think of course as any business would have, you'll have certain larger customers





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with a longer offtake. So I think for them there may be something given there. But I would imagine I would imagine all of it to be within a single digit range.

**Krishan Parwani:** Just one clarification in terms of the volume front of bromine. So you mentioned 5,078 for this quarter, right?

**Raghunathan R:** Yes, that's the production number.

**Krishan Parwani:** And the sales number?

**Raghunathan R:** 4,400.

**Krishan Parwani:** And what was it in the previous quarter like 3Q '23?

**Raghunathan R:** 4,000, yes.

**Krishan Parwani:** So basically you've seen a jump in bromine volumes. Then that's entirely because of the domestic volumes you're saying?

**Ranjit Pendurthi:** Primarily.

**Krishan Parwani:** So what was it in the 4Q'22, the same number, just so that it's comparable?

**Raghunathan R:** 5,500.

**Moderator:** The next question is from Amar Mourya of AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** Sir, if you can help me with the yearly sales volume for FY23 for bromine and FY22 for bromine as well as for the salt?

**Raghunathan R:** For FY23 bromine sales is around 18,700 tons as against 20,250 in the previous year and coming to salt it's around 3.75 million tons for FY23 as against 3.58 million tons in the previous year 12 months.

**Amar Mourya:** How do we see the volume offtake basically in FY24, I mean is it going to remain flat or do we see some growth in the bromine part of the business?

**Ranjit Pendurthi:** I think we will see growth. I think we're hopeful that the current trend will continue but maybe like I said, post 4-5 months, it should pick up.

**Amar Mourya:** So full year basis at least a high single digit kind of a growth possible or -?

**Ranjit Pendurthi:** I think we will possibly be looking a little bit more than that.



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- Amar Mourya:** So you're saying more than high single digit? And sir, in terms of the pricing of the bromine at what prices we had contracted let's say for next one year, if you can give?
- Ranjit Pendurthi:** I think since you're asking us to talk about a forward-looking this thing, I would possibly say that I think the earlier gentleman who asked the questions, I think the price indication they've given, I think those ranges are probably what you're looking at going forward for the next 12 months.
- Amar Mourya:** Sir, how about the salt volume we see for next year?
- Ranjit Pendurthi:** Same, I think the volume growth should be in more than a single digit. We will continue to be quite aggressive on that front.
- Amar Mourya:** We are confident that pricing will remain at this level for the salt?
- Ranjit Pendurthi:** Yes, I think so. I believe as we spoke about a few minutes ago, I think we talked about longer term contracts. So I think the prices will be visible on that front.
- Amar Mourya:** This Sulphate of potash, this 8,000 MT, which we are talking about, we'll be able to sell that in FY24 on a full year basis?
- Ranjit Pendurthi:** Yes.
- Amar Mourya:** On overall basis, what should be the volume we are looking for sulphate of potash on total basis?
- Ranjit Pendurthi:** If not the same volume of 8,000, I think we're looking at least a bit higher.
- Moderator:** The next question is from Pritesh Chheda of Lucky Investment Management. Please go ahead.
- Pritesh Chheda:** Sir, can you tell us what is the value addition of bromine derivatives over base bromine, if bromine is \$4, then some of these products and derivatives what is their range of prices?
- Rajeev Kumar:** So to answer your question on the market prices of bromine, we expect to make EBITDA between 25% to 30% in derivative segment.
- Pritesh Chheda:** Sorry, I didn't understand your answer.
- Rajeev Kumar:** So whatever is the market prices of bromine if you take that as your input cost, we will be making 25% to 30% of margin.
- Pritesh Chheda:** And what will be the realization of those products?



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- Rajeev Kumar:** It depends because there will be different derivatives which we will be making and input of bromine is different. So, it will all depend upon what kind of product mix we are selling, that will determine the end product value.
- Pritesh Chheda:** Any range you want to share, any case you have three products right, which is mentioned on the PPT?
- Rajeev Kumar:** So, for example, flame retardants will have between 0.60 to 0.65 bromine input. So you can take that as a reference point, (+30%) on bromine prices you can do EBITDA there. Similarly, for brine fluid, it will be 0.25 to 0.30 bromine and for the other PTS catalyst synthesis, it will be around 0.45 to 0.5.
- Pritesh Chheda:** You mentioned that half of your bromine is long term contract and the other half is spot. On the other side, you mentioned that you expect prices to sustain for your business. But these two things don't match, right? So if half of it is contractual and half of it is spot, so at least on the spot, you will see lower bromine prices flowing through, right?
- Ranjit Pendurthi:** So I think this goes back to a question that was asked earlier in the call. Let me clarify that for you. So I think the contracted prices that have come over the last quarter or so a couple of quarters so there has been I think a revision in the pricing and the spot contracts are pretty much mostly domestic which are holding firm compared to the export market. So I think what we mean is that... I don't recall the analyst who had asked the question, but he had given an indication of, is it going to be around the \$4 mark I think we said that's a reasonable assumption.
- Pritesh Chheda:** So you had a \$4 realization last year and you see a \$4 realization this year and what is the spot selling at currently?
- Ranjit Pendurthi:** I don't think we sell spot in the typical nature of spot like for example, I think if you're asking me somebody who wants one tank of bromine which is let's say 20 tons tomorrow, we don't do that. So I think when we say spot, it means a bit different spot means what someone who's asked for the next four months, right.
- Pritesh Chheda:** So you'll have a three monthly or a four monthly spot nature, which gets reviewed every three or four months, what is that selling at, \$4?
- Ranjit Pendurthi:** Same range that we have indicated on an average.
- Moderator:** The next question is from Amish Kanani of JM Financial Services.
- Amish Kanani:** Sir, if you can give us a flavor of why the market is so volatile and who is destocking? I just want to understand whether there are new producers from China who has come back to the



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market or clients are destocking because they were running higher than usual inventory, if you can give us some flavor of the market why it's changed and why it's so volatile?

**Ranjit Pendurthi:**

So thanks for the question. So I believe that the combination of factors, but primarily it's got to do with destocking. I think we had a team out in China last month. That's the first visit that anyone managed post the lockdowns being lifted. So on one hand you have an industry that's downstream industries are slowly picking up post these lockdowns, etc., being lifted, returning to normalcy, that's a good part. But having said that they have procured bromine at very high prices. In fact, during my investor road shows last year, we had said that those prices were not sustainable, the \$7-8 prices, we said that's not normal and I think that's happened across a lot of industry groups, not just bromine, not just the chemical industry across everything like auto, etc., So people have possibly even more stock in many cases simply because of the supply chain disruption. So I think it's just a matter of time where this destocking is a natural process and people are not used to situations that have happened in the last couple of years. So just returning to normalcy. I don't see it as abnormal, which is why I use the specific word in my introduction, I said it's an aberration, so we just have to wait for that evenness to come off for the next four or five months. The industry fundamentals still remains strong. I think that's important to note. The flame retardants, for example, not going away anywhere. Electronics are not going away anywhere. Car tyres are not going away anywhere. So I think some of the users of these products will continue. And so far as the Indian industry is concerned, I think you all are more aware than I am about the strength of the agrochemical industry. Some headwinds will always happen. But I think the ultimate focus is on how the demand growing, as an overall industry. I think that usage of bromine still continues to be strong. That's our view.

**Amish Kanani:**

Sir, in terms of understanding the nature of spot versus long term contract and what I understood based on your response also there are some few short term contracts which say three months which you might consider to be spot from your perspective. But if you can give us some sense of how globally how the spot price influence is in our realization?

**Ranjit Pendurthi:**

I think spot price unfortunately gives a knee-jerk reaction and I think that's something we have to be careful of. So the customers generally we have the smaller ones do are more sensitive. The larger ones have a much larger timeframe of outlook. So I think it is only fair to expect the small ones to have a more pressure on price and the longer ones possibly will have a little bit less pressure on price but look to a more even pricing over the course of six months or even up to a year.

**Amish Kanani:**

I understand that you are the cost leaders globally, but are other players were above our cost curve, are they making money at these prices or you think it is really not sustainable and hence these pressures will die down quickly?



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**Ranjit Pendurthi:**

I would hope that they are doing business and making money and I think everyone is probably making money would be my best guess. The reason being that I think margins are there, the market is there. Again, it's not about having a one quarter or two quarter outlook, but I think fundamentally industry needs to be seen in that context. So I think people are making money. How much money? I think that's everyone's choice about how they do the pricing or what kind of strategy they use.

**Amish Kanani:**

Absorbing the technology, we have not been into manufacturing of chemical and plus one stage. And you did mention about we are making the markets ready about say 3-4 months advance by doing some work. But if you can also give us some sense of how well are we positioned to quickly absorb the technology because it's new for us in a way? And how is our technology partners helping us to do that quickly?

**Ranjit Pendurthi:**

A fair question. I think whenever you start a business, I think you'll be likely as an entrepreneur starting a product for the first time. So I think we're comfortable with doing something the first time and the reason we're comfortable is one, I think we have the right team, I think we have good R&D team like I mentioned on the call earlier, we have an executive director, Mr. Daxesh will come on board in January, he comes with an with a hardcore agro chemical background. So I think in terms of chemistry, we're well equipped to handle the technology, and also from I think a market perspective I think we have all the right places that we've been in business with already. So it's a little bit more of an extension of the market we are in. And I think we continue to discover that there's enough and more interest in these products that we're going to make and we're comfortable in seeing the progress on ground. And I think from a marketing perspective, I think we don't want to put the horse before the cart too much in advance. I think we need to wait until the plant can see some readiness in terms of structure, etc., So clients also have not only visibility, but have comfort that you're promising them some products four months or five months down the line and it's fairly visible to them. So I think we got time in that way and which is why I said September, October is when we'll start on a serious marketing effort, but at the moment we're already in touch with potential customers.

**Moderator:**

The next question is from Rohit Nagraj of Centrum Broking. Please go ahead.

**Rohit Nagraj:**

First question is that as I understand, and please correct me if I'm wrong, globally, there are limited number of producers for bromine. So structurally, how the pricing is decided, I mean, except for the last couple of years where there has been an aberration, prior to this, what were the variables which were used in terms of pricing for bromine and generally those prices go up with inflation adjusted basis or probably the largest player usually dictate the prices and others will follow, just wanted some dynamics from the pricing perspective.

**Ranjit Pendurthi:**

That's a good question. I think there is no one who really sets the price. As you yourself mentioned, it is a restricted commodity and trade. It's only sold by a handful of people



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especially at the volumes that we kind of do. So in that context, I think no one really fixes a price and expects everyone to follow it. Everyone fixes their price depending on the customer that they have and the volume that each one buys. So, I would say it's not an established benchmark or index like the more commonly traded chemicals or hard goods.

**Rohit Nagraj:** And just an allied question to this, in terms of margins, so bromine margins usually are higher than salt margins or vice versa given that probably there would be players who are just producing bromine and not salt?

**Ranjit Pendurthi:** Are you asking that people who produce bromine and salt, the salt has a lower margin than bromine?

**Rohit Nagraj:** I mean, is there any difference between the margins of bromine and salt for a pure bromine player who is not producing salt, the margins would be higher and vice versa.

**Ranjit Pendurthi:** I think our strength has always been as a specialty marine chemicals company to be an integrated producer of bromine, salt and potash. So that's how we see our strength being able to supply three products from our asset. So I believe that the margins that we're talking about, which is why we have a composite margin, I think the 40%, 45% range margin, I think that's sustainable because there are quarters where you have bromine doing better and there are quarters salt doing better and in the near future we hope SOP also comes on stream in terms of contribution. So I think that makes a lot of sense from a company perspective having three products instead of just one.

**Rohit Nagraj:** One last question on the contract which we spoke about earlier. So currently for bromine and for salt, if I'm not wrong, it is almost half of the quantities or volumes are being contracted. Can you just give us the timeline till when both these volumes have been contracted for the next one and half years or two years, anything on that?

**Rajeev Kumar:** So for bromine, it is for the next one year. For salt, we have contracted for next two years.

**Moderator:** The next question is from Agam Shah as an individual investor. Please go ahead.

**Agam Shah:** Majority of my questions answered, just a quick question on the lease part renewal at Rann of Kutch, that you already have, anything have you renewed your contract?

**Ranjit Pendurthi:** Thank you for the question, sir. I think it's under progress.

**Agam Shah:** Going as per process right?

**Ranjit Pendurthi:** Yes, it's going out for process as we've indicated in the past.

**Moderator:** The next question is from Yash Dantewadia of Dante Equity Research. Please go ahead.



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- Yash Dantewadia:** So what I understand is from your Greenfield expansion is the bromine derivatives are obviously downstream products, right, high end flame retardant, clear brine fluids and the PTA.
- Ranjit Pendurthi:** Can you repeat the question?
- Yash Dantewadia:** I'm saying the Greenfield expansion of 250 crores is basically a downstream derivative expansion, right? So what kind of asset turnover are you expecting from that particular plant?
- Rajeev Kumar:** So, we had indicated it in our last call also we're expecting it to be in the range of three times.
- Yash Dantewadia:** Also, what percentage of your production is going to be used in this Greenfield expansion, basically what I'm asking you is what percentage of the bromine production will be used in the downstream production for this Greenfield plant?
- Ranjit Pendurthi:** So at peak capacity utilization, we expect about 40%-odd percent to be used captively.
- Yash Dantewadia:** I know you've explained it, but I'm a fairly new investor, so I just want to understand is how are you able to maintain these margins even when bromine has declined by 30%, 40% odd? And second part is could you give a short term guidance at least, I know it's difficult to give a long term guidance for chemical margins, if you could give maybe give a guidance for the next quarter, where do you see your OPM?
- Ranjit Pendurthi:** So I think the reason why we have good margins I think is we managed to get the best prices given our performance and our delivery and quality with customers over a long period of time. And second is we've very efficient in what we do. I think someone referred to this in the earlier conversations about us being in the lowest cost quartile. I think we've been able to maintain that position where we are in terms of cost of manufacturing. And I think the third question is, I would at this point would like to refrain from giving you a short term guidance because it becomes a guidance and I would be happy if you could infer from the conversations in the past hour or so; I think we've indicated where we would be in the next 12 months.
- Yash Dantewadia:** Yes, the 12 months you've indicated is I think around 40% to 45% odd if I'm not wrong.
- Ranjit Pendurthi:** We would like to maintain at that range, yes.
- Yash Dantewadia:** So also if you have 40% is going in the bromine derivative production, then how after the Greenfield expansion, comes online, do you see your OPMs expanding?
- Ranjit Pendurthi:** Ideally yes, because as my colleague mentioned on the call when the derivative project is up and running, we are expecting 25% to 30% margin there. But that takes into account the market price of bromine as an input cost.



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- Yash Dantewadia:** So I'm just contemplating that basically what you're telling me is that if you look at the company from a two year, three year perspective after this Greenfield expansion comes online, would it be safe to say that your OPMs won't decline at least?
- Ranjit Pendurthi:** That is our endeavor, sir to make sure that it doesn't decline because we need to maintain that robustness in both cost control as well as product pricing.
- Yash Dantewadia:** And also just confirming this, three times of the 250 crores odd, so we're expecting sales close to 700 crores, which basically means it's highly possible for you to do 2x, 3x your sales in the next two to three years, right?
- Ranjit Pendurthi:** Apologies, I did not follow the question clearly.
- Yash Dantewadia:** I'm saying your asset turnover for the Greenfield expansion is basically 3x, right?
- Ranjit Pendurthi:** Yes.
- Yash Dantewadia:** So you're basically expecting sales close to 600 to 700 crores from that plant?
- Rajeev Kumar:** Yes, that would be a fair assumption.
- Yash Dantewadia:** So would it be safe to assume that in the next two to three years or so your overall top line should grow by at least two times?
- Ranjit Pendurthi:** It should, yes. That's the aim.
- Moderator:** The next question is a follow up from Amar Mourya of AlfAccurate advisors. Please go ahead.
- Amar Mourya:** Sir, in terms of this Sulphate of potash, what kind of pricing we should assume?
- Ranjit Pendurthi:** I think we had modeled \$450 as the price during our roadshows and I think we're maintaining that as a safe assumption.
- Ranjit Pendurthi:** So thank you everyone for joining us in this earnings call. We appreciate your time and showing interest in our company and we hope that you continue to repose faith in our company and us. In case of any queries you can get in touch with us or SGA, our Investor Relations advisors. We look forward to meeting all of you over the next call and have a good day.
- Moderator:** On behalf of Archean Chemical Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.