

Q4 2011 Earnings Call

Company Participants

- Guruprasad Mohapatra, Managing Director

Other Participants

- Yogesh Patil
- Bharath Subramanian
- Analyst
- Viraj Mehta

Presentation

Operator

Ladies and gentlemen, good day and welcome to the Gujarat Alkalies and Chemicals Limited Conference Call hosted by Equirus Securities Limited. As a reminder for the duration of the conference, all participants' lines are in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. [Operator Instructions]. Please note that this conference is being recorded.

At this time I would like to hand the conference over to Mr. Guruprasad Mohapatra of Gujarat Alkalies and Chemicals Limited. Thank you and over to you sir.

Guruprasad Mohapatra, Managing Director

Yeah. Can everybody hear me? Hello.

Operator

Mr. Mohapatra all the participants are in the mute mode.

Guruprasad Mohapatra, Managing Director

Okay. So I speak now.

Operator

Yes, you can go ahead.

Guruprasad Mohapatra, Managing Director

Okay. Good afternoon everybody. I am sure you have seen the results which have been published in all the major newspaper. So to just a brief background, the Chlor-Alkali sector had very bad financial year last year. It applied to all

of us, not only GACL, but all those who are primarily in the Chlor-Alkali sector. So but there was a significant improvement in the last quarter, as the factors which have dampened the span for Caustic Soda factors were into change. And the Q4 was exceptionally good. And then Q1 of the financial year also the promise is good. So now we can, couple of other things, GACL has gone for very massive expansion and diversification plan of around 2,800 crores. A couple of products we could complete, projects we could complete last this in the last quarter and one year completed this quarter, a lot of new things are happening. And the future looks very extremely promising for us by 2013-'14 GACL would not be a Caustic Soda manufacturing company. It would be a chemicals company with Caustic Soda as one of its major products, but there will be a few more major products as well, and the portfolio will be much more diversified.

With this I would invite you to ask questions.

Questions And Answers

Operator

Thank you. Now question-and-answer session. [Operator Instructions]. Our first question is from the line of Yogesh Patil from Canara Robeco. Please go ahead.

Yogesh Patil

Good afternoon there.

Guruprasad Mohapatra, Managing Director

Good afternoon.

Yogesh Patil

Sir regarding the CapEx, how much CapEx you have done last year, FY11?

Guruprasad Mohapatra, Managing Director

In the last financial year we completed a bleaching powder project.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

Then we also completed a calcium chloride expansion, bleaching powder a new product.

Yogesh Patil

Yes.

Guruprasad Mohapatra, Managing Director

And then this quarter and then we went for benzyl chloride, then toluene and all but that is on a contract manufacturing.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So these products are supposed to add full year turnover of nearly 150 to 200 crore to our turnover.

Yogesh Patil

Okay. And the margin in this project production?

Guruprasad Mohapatra, Managing Director

Margins are always more or less in bleaching powder the margins will be less, the bleaching powder essentially chlorine zinc when there is less demand of chlorine, we use more a bleaching powder.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So, but otherwise the margins are always, you say the PAT margins for most of these chemicals will be in the range of 15 to 20%.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

And this financial year we are going to immediately in June in another week, we are going for the third expansion of the hydrogen peroxide, we are completing it. So, with this our market share in hydrogen peroxide with the new plant which is being commissioned in first week of June. Our market share in the country would be the second highest, would be close to around 30 to 35%. And the share of hydrogen peroxide in our total sales would also rise to around 20, 25%

Yogesh Patil

Okay. And where the margin is driven in hydrogen?

Guruprasad Mohapatra, Managing Director

Hydrogen market is good. There are sometime seasonal setbacks by involving ports and all. But generally it's a very good product because it is a more environmentally friendly product. And more and more prefer companies and others are switching over to hydrogen peroxide whenever they require a bleaching agent.

Yogesh Patil

Okay. Who is the market reseller?

Guruprasad Mohapatra, Managing Director

They are essentially three manufacturers.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

APL, NPL and GACL.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

One of them is in Maharashtra, one in Tamil Nadu; one in Gujarat.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So, three of us used to have roughly around one-third, one-third, one-third.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So, but now the Maharashtra one and Gujarat will be number one, Gujarat will be number two, the Tamil Nadu one will be number three.

Yogesh Patil

Okay. Sir, FY11 revenues how much is approximately from caustic soda and value addition? The caustic soda would be 60% roughly?

Guruprasad Mohapatra, Managing Director

No, no. Now it has come down with the caustic soda value has come down.

Yogesh Patil

Yeah, yeah.

Guruprasad Mohapatra, Managing Director

So, it had come down to around 50%.

Yogesh Patil

Okay. So, this year it would be more than 60%, FY12?

Guruprasad Mohapatra, Managing Director

The caustic soda prices are good.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

Plus we have, don't forget we are adding a lot of new products every year.

Yogesh Patil

Yeah, yeah.

Guruprasad Mohapatra, Managing Director

Our eventual goal is in 2013-'14 when we complete all this 2,600-2,800 crores of projects, we should retain our leadership in caustic soda in the market.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

But the percentage of caustic soda in the sales market should come down to around 40%.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So, that's our strategy.

Yogesh Patil

Okay. Sir, in FY12 how much CapEx are you planning to do?

Guruprasad Mohapatra, Managing Director

Around 400 crores.

Yogesh Patil

Around 400 crores.

Guruprasad Mohapatra, Managing Director

Out of which 2,800 crores, around 400 crores would be in this financial year, current financial year.

Yogesh Patil

And in FY13 it would be more than 1,000 crore CapEx?

Guruprasad Mohapatra, Managing Director

It will be distributed in over three years, 2013-'14 is the last one.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So, that always this every project the first year is less, the second year is around 60%, and the last one is around 20%. That's the normal break-up in any project.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

Which requires 36 months.

Yogesh Patil

And sir what is the status of Dow-GACL?

Guruprasad Mohapatra, Managing Director

There the technical work is going on.

Yogesh Patil

By what time you can expect revenue from that project?

Guruprasad Mohapatra, Managing Director

Revenues will be late 2013-'14 because there is a delay.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

On account of the international factors from DOW side. So, we did a set back around six to nine months. Now again it has picked up, now we are doing the technical work, all the retail engineering and all those works.

Yogesh Patil

Okay. What is the current planning for caustic soda right now?

Guruprasad Mohapatra, Managing Director

Pardon.

Yogesh Patil

What is the current scenario?

Guruprasad Mohapatra, Managing Director

Current scenario as I said in May

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

There was a slightly slump.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

That's mainly because many of the user sectors were under some court orders or something.

Yogesh Patil

Yeah, yeah.

Guruprasad Mohapatra, Managing Director

It has Polythene Control Board and or some courts or something.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

But as a temporary thing where they will soon comply with the requirements.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

So that's how there is a slight dampening in demand in May, but much better than the situation which is prevailing in the Q1, Q2, Q3 or first of the last FY.

Yogesh Patil

Okay. So it approximately price at the same level for the full year, right? Approximately.

Guruprasad Mohapatra, Managing Director

Should remain, because now the cost have increased so much of fuel.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

Both domestic coal, imported coal as well as gas that nobody can afford to have these kind of issues that we saw in those distressed months of the first and second quarter particularly.

Yogesh Patil

Sir what is our power cost approximately?

Guruprasad Mohapatra, Managing Director

We have three sources, four sources of power.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

We have, we get around 40 to 45 megawatts.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

From a joint captive in GIPCL, it's another listed company.

Yogesh Patil

Yeah.

Guruprasad Mohapatra, Managing Director

The first plant we are jointed owners. So we get around 40 to 45 megawatts from there. Then we get power from our captive power plant at around 90 megawatts. Then we buy roughly around 9 to 10 megawatts from the grid. Then we also have wind power of 84 megawatts installed, out of which average we get around 25%, around 25 megawatt.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So that is, so our power cost as a whole to the company remains at a manageable level, because of the energy mix. What is a cause of concern is the gas cost.

Yogesh Patil

Yeah, yeah. That's a concern. Current grid sales are lower than the gas prices.

Guruprasad Mohapatra, Managing Director

More or less similar.

Yogesh Patil

Okay. And sir, one more question on the employee cost. As you see as a percentage is it going down, sir any specific reason?

Guruprasad Mohapatra, Managing Director

No, we have gone for firstly we have done a very detailed man power review in the last two financial years.

Yogesh Patil

Yes.

Guruprasad Mohapatra, Managing Director

And we have fixed an org-anagram for the company. And we are trying to see the receivers per employee productivity and profits. We are normally never done in an ESU. After done that we have been able to freeze the employee position and only for new projects we take new people, and we're also found out people who can be redeployed.

Yogesh Patil

Okay.

Guruprasad Mohapatra, Managing Director

So that's what we are doing.

Yogesh Patil

And also you are going for lot of outsourcing of activities.

Guruprasad Mohapatra, Managing Director

Yes.

Yogesh Patil

Okay. Thank you very much sir.

Guruprasad Mohapatra, Managing Director

Thank you.

Operator

Thank you. Our next question is from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharath Subramanian

Good afternoon sir.

Guruprasad Mohapatra, Managing Director

Good afternoon.

Bharath Subramanian

Sir if you can just share some color on earlier issue as on date and in terms of between caustic and chlorine, how do you pricing look for the quarter?

Guruprasad Mohapatra, Managing Director

See the ECU was as high as 28-29,000 in March-April. So, now there is a slight slump. It has come down to around 25, 24-25 will be ECU now thousand in current month. So, this is more or less going to remain the same it may increase

but should not go any further below not remarkable below this, let me put it that way.

Bharath Subramanian

And Jan to March quarter average would be somewhere around 24-25 sir?

Guruprasad Mohapatra, Managing Director

Jan to March average is high 26.

Bharath Subramanian

Okay. And between caustic and chlorine how is the pricing sir?

Guruprasad Mohapatra, Managing Director

Right now around, normally it is always negative correlation in caustic rises chlorine falls, chlorine rises caustic falls. That's the pattern of the industry. But currently both are under little lack of demand, because as I said some of the units, because of major units, because of shut downs, annual shut downs or preventive shut downs or accidental shut downs; or because of authority restrictive orders of the Pollution Control Authority of the court. They have some, they are doing they are shut down. That is created to this demand supply imbalance. But I understand by May end, by June mid the position should improved, because most of the compliant will be over by then.

Bharath Subramanian

Okay. And in terms of caustic capacity, could you just share as to what would be the other overall industry addition in the current year, any other players expanding in the current year?

Guruprasad Mohapatra, Managing Director

Grasim is expanding in Gujarat. I do not know the exact number but they are expanding it, but that would be primarily for their domestic use, captive use.

Bharath Subramanian

Okay.

Guruprasad Mohapatra, Managing Director

And we will be expanding by 600 tonnes, out of which the entire chlorine would almost be for captive use and some part of caustic.

Bharath Subramanian

Okay. And when are we likely to have this ?

Guruprasad Mohapatra, Managing Director

This is 2013.

Bharath Subramanian

Okay. And the power, in terms of power expansion to match this would it be again...

Guruprasad Mohapatra, Managing Director

We were planning to set up a captive power unit to take care of the additional requirements. But now we are going for a long-term power purchase valid for 25 years with a skeleton formula because Gujarat has a lot of power plants, which have come up. And there is a sort of a quite a good comfortable supply demand position. So, we are rather than setting up a power plant and then the uncertain about the resource and the supply and the rates of the fuel, we are going for long-term power purchase agreement.

Bharath Subramanian

Okay. So we've already signed agreement, sir?

Guruprasad Mohapatra, Managing Director

We are, we are in the process.

Bharath Subramanian

Okay.

Guruprasad Mohapatra, Managing Director

Cannot share the details with you.

Bharath Subramanian

No, but...

Guruprasad Mohapatra, Managing Director

But you must assume that it will be more advantageous than setting up a captive power plant.

Bharath Subramanian

Okay, fine. And in terms of the Polyols project where we at this point of time, sir?

Guruprasad Mohapatra, Managing Director

There are two, Polyols project is an integrated project actually. First it requires hydrogen peroxide which is based on an environment friendly technology. Then that hydrogen peroxide along with propylene will be used to make propylene oxide. And from propylene oxide will go to Polyol and Polyol to further value additions to Polyol. So, the first one would be a project to be done by Evonik. So, that will be for capital supply to us. The second, third, fourth projects we are now at various stages of finalize and technology supplier and all. So, this is a project in any case which is from integrated project, which is going to come up in 2013-'14. While this terms along with Hydrazine our sales portfolio would change dramatically. Where as you know Polyol and Hydrazine are 100% import substitution product, it's a very healthy growth for us.

Bharath Subramanian

Okay. But in terms of, now the project financial closure and everything we already...

Guruprasad Mohapatra, Managing Director

We're not gone to financial closure, we'll go for that in this financial year itself. But raising finances is not a problem. You must have seen our DE ratio.

Bharath Subramanian

Sir, but have you changed the scope of the project in terms of adding anything beyond what we initially compete?

Guruprasad Mohapatra, Managing Director

We are adding a few more, we are planning to stop at Polyol, but there are more value addition thereafter. So, we are going for a one or two more value additions after Polyol.

Bharath Subramanian

Okay. So, that changes the project cost sir, in terms of overall project cost?

Guruprasad Mohapatra, Managing Director

Yeah, marginally.

Bharath Subramanian

Okay, thanks.

Guruprasad Mohapatra, Managing Director

It's one of our big ticket projects at Polyol project investment.

Bharath Subramanian

Fine sir. And sir, lastly in terms of our existing cost structure, any cost elements where you are seeing pressure coming in like in case of salt prices anything that's happening in terms of ?

Guruprasad Mohapatra, Managing Director

Salt, power, there all, gas and all power all the raw materials cost increase. But these are matter of worry as long as you cannot passed by on why you have increased realization. So, as long as that happens there is nothing to worry because just as our sales price increase due to that the cost price of the input also increase. Somebody else is manufacturing that.

Bharath Subramanian

Fine sir. Okay sir thank you.

Guruprasad Mohapatra, Managing Director

Thank you.

Operator

Thank you. Our next question is from the line of Anshul Saigal from Kotak Portfolio Management. [Operator Instructions]. Mr. Saigal, please go ahead.

Analyst

Sir what would be your peak debt and when would it come about in 2013 or '14?

Guruprasad Mohapatra, Managing Director

No, no. We have done a careful analysis of the inflow of funds slightly, and at the highest also there should be nothing to worry about.

Analyst

How much...

Guruprasad Mohapatra, Managing Director

So for 70, 30 debt equity. So, if you look at the current debt equity profile, and so that should not be anything to worry.

Analyst

So the 2,800 crore CapEx plan would have 70% debt, will be funded till 70% debt and 30% equity?

Guruprasad Mohapatra, Managing Director

And also it might raise finances, from the public towards the when you are nearing the close of the project.

Analyst

And this would be in the parent itself or through a subsidiary route?

Guruprasad Mohapatra, Managing Director

All those options can be seen, too early to talk about. But this is one of the strategies.

Analyst

Okay. Amongst..

Guruprasad Mohapatra, Managing Director

There are some joint ventures also.

Analyst

Right.

Guruprasad Mohapatra, Managing Director

Which will reduce the 28 to 100 crores breakup into 70, 30.

Analyst

Okay. Could you name those sir. Could you tell us what does would be?

Guruprasad Mohapatra, Managing Director

DOW, it is already announced something more interesting would come up. I cannot declare it now when it is going to come up.

Analyst

DOW is not included in this 28 crore, right?

Guruprasad Mohapatra, Managing Director

No, it's not included.

Analyst

So the other one will be included in this?

Guruprasad Mohapatra, Managing Director

Yeah.

Analyst

Okay. Amongst the projects you mentioned, Polyol and Hydrazine and the rest, which would be the highest ROE generating? Where would the profitability be the highest?

Guruprasad Mohapatra, Managing Director

In Polyol and Hydrazine.

Analyst

Okay. And what would be the addition to sales sir from today's levels?

Guruprasad Mohapatra, Managing Director

Today's levels in 2014-'15, when all the plants are fully commissioned and fully operational as per the installed capacity. The present turnover increases more than three times.

Analyst

Okay. And any assessment of how much the cash flows would increase by say on the EBITDA level?

Guruprasad Mohapatra, Managing Director

EBITDA level was earlier for Caustic Soda manufacturer quite healthy around 28, 29 which has come down now, but we should be reaching those levels.

Analyst

Okay. And all of these projects for forward integration?

Guruprasad Mohapatra, Managing Director

Both forward and one or two backwards. The backward ones have already been done. The calcium chloride, the bleaching powder, the hydrogen peroxide which is coming up in June.

Analyst

Okay. And the technology partners for the first project has been identified. What about the third second and third project?

Guruprasad Mohapatra, Managing Director

The technology partners are being, in the process of being identified. By July, August everything would be through. All the agreements would be signed.

Analyst

Okay. All right. Thanks so much.

Guruprasad Mohapatra, Managing Director

Thank you.

Operator

Thank you. Our next question is from the line of Viraj Mehta from Equirus Securities. Please go ahead.

Viraj Mehta

Yes, just a last couple of questions from my side. The tax rate for the entire year sir has been very at around 7 odd percent.

Guruprasad Mohapatra, Managing Director

Yeah.

Viraj Mehta

And even this quarter is around 14 odd percent. So just wanted to get a sense what is, why the tax rate is one this low and what is the sustainable tax rate we can assume going forward in FY12 and '13 when the company does higher profitability?

Guruprasad Mohapatra, Managing Director

I would not be able to answer that. The tax rates are what we are paying is whatever is legally payable, that we put it that way. We are responsible unit, we'll not be cheating on tax ever.

Viraj Mehta

Okay. And any exemptions you have?

Guruprasad Mohapatra, Managing Director

No we have no exemptions. We're in ED exemption excise duty for the but 10 year is over and there is no exemption now.

Viraj Mehta

Okay, okay. And..

Guruprasad Mohapatra, Managing Director

The exemptions were not going to available to anybody now throughout the country. We are going out of come to VAT and then we'll soon go to GST where such exemptions will normally not be available unless there are settled packages like earthquake area or something like that.

Viraj Mehta

Okay, fine. Okay, I don't have anymore questions sir.

Guruprasad Mohapatra, Managing Director

Okay, thanks.

Operator

Thank you. Our next question is from the line of Janki Naman from Franklist Businesses. Please go ahead.

Analyst

Good afternoon Dr. Mohapatra.

Guruprasad Mohapatra, Managing Director

Good afternoon.

Analyst

In your opening remarks you mentioned that fiscal '11 was a quite bad year for the Chlor-Alkali industry and then you saw a recovery in the fourth quarter.

Guruprasad Mohapatra, Managing Director

Right.

Analyst

So if you can explain what caused the weakness first and then what change for that fourth quarter be in term...

Guruprasad Mohapatra, Managing Director

Couple of things, the basic recession in U.S. and Europe, there the caustic soda prices came down to 25 to \$30 in U.S. which is against normally it remains at around \$400. So, there is a lot of dumping took place, I guess around 15,000 tonnes of imports per month more than a 1 lakh tonnes came into the Indian market. And we being a coastal state with very good ports all around we're the first point of import. And it affected our sales, we sale nearly 60% of our products in Gujarat and have an advantage here over transport, because of transporting cost. So, then the industry it still takes some time as procedure to get an anti dumping and all these in place takes time.

Analyst

Right.

Guruprasad Mohapatra, Managing Director

While we succeeded in that, but then by the time the situation also improved, the international prices had formed up. And the economies there has improved, so there is no need for dumping those company. So, they are getting a, searching a better price there. So, that is one factor at change. Secondly, Indian demand also picked up. Sectors which are very sluggish like textile, leather and all. So they started demand, started picking up as you have seen the general recovery in Indian manufacturing sector.

Analyst

Right.

Guruprasad Mohapatra, Managing Director

In the 2010-'11 that is more pronounced after the first half. So both nets were revival.

Analyst

Okay, okay. And we also after the fairly significant CapEx program, so when you evaluate it from a financial angle, do have any threshold profitability in mind, the minimum pay back or internal investment.

Guruprasad Mohapatra, Managing Director

I will not share that internal calculation, but I can only share this much. That's like any other good company, when we evaluate a project, we look at the several things, the product life cycle of that project. The imports and the threat of imports and the local availability, the market growth forecast for the next 10 year and we employee good markets to survey organizations, to give us this report. Then we do not settle down for on payback and ROE on anything which is a industry norm, or the healthy industry norm before we decide a project. Unless some projects we're consciously doing as just to give something.

Analyst

Right, right.

Guruprasad Mohapatra, Managing Director

But none of these projects that I'm talking about the 2,800 crores comes in the second category.

Analyst

Okay. And lastly sir, you are operating in a industry where bulk of the products are globally tradable commodities. So, you don't have much pricing power and you are operating in a country where there is fair amount of inflation that's happening now. So, are you feeling that your margins are squeezed under such a situation.

Guruprasad Mohapatra, Managing Director

Definitely, we or the entire industry felt that at that one point of time the PAT was much higher, percentage of PAT of sales, percentage of EBITDA of sales in the Chlor-Alkali sector is much higher if you look at the last few years comparing to the previous year for any company.

Analyst

Right.

Guruprasad Mohapatra, Managing Director

But what is happened is this only way to take care of this is when you diversify your product portfolio. That's what we are going to do by adding this Polyol and Hydrazine and products like this into our product basket. Where we maintain our primes in the market shares, but then we'll not be subject to the fluctuations of this sector. And we have some good value added products like Polyol group and Hydrazine.

Analyst

Okay. So, your balance sheet right now looks extremely strong, but 2,800 crores is a very ambitious project, so would you require?

Guruprasad Mohapatra, Managing Director

2,800 crores over five years.

Analyst

Right.

Guruprasad Mohapatra, Managing Director

We started from last financial year, and we've already done this four small projects including the hydrogen peroxide which is going to commissioned. And if you look at our balance sheet and our reserves and everything, I don't think it will be a problem fully taken care of these considerations in our planning.

Analyst

Okay. Perfect sir. Thank you.

Guruprasad Mohapatra, Managing Director

Thank you.

Operator

Thank you. [Operator Instructions].

Guruprasad Mohapatra, Managing Director

Yeah, we will take the last question.

Operator

Sure sir.

Guruprasad Mohapatra, Managing Director

Okay.

Operator

Due to time constraints, this would be the last question. Our next question is from the line of Nitin from ICICI Prudential. Please go ahead.

Analyst

Good afternoon. Sir can you throw some light on the project update with JV or which we have with DOW?

Guruprasad Mohapatra, Managing Director

DOW-JV the engineering stage is going on. The project was delayed by around nine to 10 months. So, that was mainly because the DOW, some of the international issues they had, but now the project is coming back to stream. So, there's been a delay of close to nine months to one year.

Analyst

Okay. And how about the Polyol? Do we have land and ?

Guruprasad Mohapatra, Managing Director

Everything is very comfortable in land positions. The technology tie ups are going to done by July, August. There are lot of interesting things happening there.

Analyst

Okay. And sir on Polyol, just want to understand out of curiosity like is Polyol anyway correlated to our existing business?

Guruprasad Mohapatra, Managing Director

Polyol require hydrogen peroxide. And we are going to make specifically hydrogen peroxide through a Evonik supplier. But this is more of a strategic shift rather than doing any integration. This will give us the make the product portfolio much more diversify.

Analyst

Okay. And can you just explain the, I understand the market of Polyol in India?

Guruprasad Mohapatra, Managing Director

It grows at more than 10%.

Analyst

So, what would be the current...

Guruprasad Mohapatra, Managing Director

I will not have the data, but quite healthy.

Analyst

Okay. And any domestic producers or it's imported?

Guruprasad Mohapatra, Managing Director

100% import substitution.

Analyst

Okay. And sir, why aren't any plants of Polyols being setup in India. Is there some cost disadvantages?

Guruprasad Mohapatra, Managing Director

No require hydrogen peroxide.

Analyst

Okay.

Guruprasad Mohapatra, Managing Director

Of huge quantity.

Analyst

And for hydrogen peroxide, what is the constraint?

Guruprasad Mohapatra, Managing Director

Constraint in the sense, you require hydrogen to make hydrogen peroxide. To make hydrogen, you require caustic soda plant. So only the caustic soda plants are the natural contenders.

Analyst

Okay.

Guruprasad Mohapatra, Managing Director

You cannot have hydrogen from other sources, hydrogen is a by-product. So worldwide if you can see the Polyol manufactures are some of the big caustic soda manufactures themselves.

Analyst

Okay. Yeah now in understand. And in terms of ends of products, what are the users industry for this?

Guruprasad Mohapatra, Managing Director

Practically everything that you move around from cars, to aeroplanes, to household articles to polycarbonate, polyurethane they are some of the derivatives.

Analyst

Okay. And sir just to understand if the full cost increase of power just because that gas price being the short of and coal price also getting increased by Coal India, has the full impact come in this quarter or we will see the going forward also at least for one, two quarters more?

Guruprasad Mohapatra, Managing Director

I don't think anything more because now spot gas sales is around Rs. 23 per MBTU which is what we are factored in. That is being going on for the last seven, eight months.

Analyst

Okay.

Guruprasad Mohapatra, Managing Director

It's not going to rise any further.

Analyst

Okay. And on the quarter-on-quarter basis our power and fuel cost has come down. So, any particular ?

Guruprasad Mohapatra, Managing Director

We got some more power from our captive power plant.

Analyst

Okay. So, exchange has happened.

Guruprasad Mohapatra, Managing Director

And plus the, now we have more wind power in those months. We have 84 megawatt of wind power. Six months are always very good.

Analyst

And sir, like on tax front what should be the going forward rate that we should expect?

Guruprasad Mohapatra, Managing Director

Which tax?

Analyst

Tax rate, income tax rate?

Guruprasad Mohapatra, Managing Director

Whatever government decides.

Analyst

No, see right now for this quarter we were something like 14%. So should we assume a 14% as a annualized basis or ?

Guruprasad Mohapatra, Managing Director

No, I am not going to comment on that. It's all depends on the sales and the profits you make. As long as we were in the tax bracket you have to save that much.

Analyst

Right. So is the current tax rate low, because of the wind mills we have and higher depreciation or...

Guruprasad Mohapatra, Managing Director

Wind mills had a role in that, but we will also. So tax is not a very major concern, and something which affects everybody is never a major concern.

Analyst

No, no it's not a concern. I'm just trying to understand how will it move going forward also.

Guruprasad Mohapatra, Managing Director

Yeah, but as I said, that is not something which I would like to say anything further.

Analyst

Okay, yeah. Thank you.

Guruprasad Mohapatra, Managing Director

Thanks a lot.

Operator

Thank you. Ladies and gentlemen, that was the last question, for today's conference. I would now like to hand the floor over to Mr. Viraj Mehta.

Viraj Mehta

Yeah, hi. I would just like to thank on behalf of Equirus Securities, the management Mr. Mohapatra and all the participants for taking their valuable time out for this call. Hope this helps all of us in understanding the company a little better way. Thanks a lot, and see you next time.

Guruprasad Mohapatra, Managing Director

Thank you so much.

Operator

Thank you. On behalf of Equirus Securities Private Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.

Guruprasad Mohapatra, Managing Director

Thank you.