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October 25, 2024

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Dear Sir/Madam,

Sub.: Transcript of the Earnings Conference Call held on October 21, 2024 for Q2 FY25

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and with reference to our intimation dated 15th October, 2024 regarding Earnings Conference call with Analyst(s) /Investor(s) held on Monday, October 21, 2024, we would like to inform that the transcript of the aforesaid conference call is attached herewith and the same is also available on the website of the Company at www.rossari.com/announcement under the head 'Investor Call'.

The same may please be taken on record and suitably disseminated to all concerned.

Thanking you,

Yours Sincerely,
For Rossari Biotech Limited

PARUL GUPTA Digitally signed by PARUL GUPTA Date: 2024.10.25 21:55:36 +05'30'

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Parul Gupta
Head - Company Secretary & Legal
Membership No.: A38895

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Rossari Biotech Limited

Q2 FY25 Earnings Conference Call Transcript
October 21, 2024

Moderator: Ladies and gentlemen, good day and welcome to Rossari Biotech Limited's Earnings Conference Call.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, Mr. Poojari.

Anoop Poojari: Thank you. Good evening, everyone, and thank you for joining us on Rossari Biotech's Q2 FY25 Earnings Conference Call. We have with us Mr. Edward Menezes, Promoter and Executive Chairman, and Mr. Ketan Sablok, Group Chief Financial Officer of the Company. We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Edward Menezes to make his opening remarks.

Edward Menezes: Thank you, Mr. Anoop. Good evening, everyone and thank you for joining us on our Earnings Conference Call. It is a pleasure to have you with us as we discuss our operational and financial performance.

We are pleased to report a steady quarter showcasing the resilience of our business in a dynamic market environment. Our HPPC division continues to demonstrate consistent growth, while the Textile business is still navigating headwinds, with the recovery expected in the next calendar year. The Animal Health and Nutrition business remains stable during the quarter.

Regarding our exports, we are proud to have expanded our global operations with several geographies emerging as key drivers of our future growth. In H1 FY25, exports grew by 32% providing strong support to our overall performance despite softer domestic growth. We have successfully targeted new customers across both new and existing geographies while increasing our wallet share with existing partners. Looking ahead, we expect exports to outpace domestic growth further strengthening our position in the international markets.

In line with this growth trajectory, we have made key investments to support future expansion. Rossari Global DMCC, a wholly-owned subsidiary, has established Rossari Biotech Trading FZE in the Jebel Ali Free Zone (JAFZA), UAE. This new entity will focus on trading activities, managing the distribution and sales of chemicals and consumer products for export markets, further enhancing our international presence. Additionally, Rossari Global DMCC has agreed to acquire 100% of the equity share capital of Unistar Thai Company Limited, a newly incorporated company that will focus on the manufacturing and sale of specialty chemicals related to our core chemistries. Furthermore, we have acquired a 39,101 square meter plot of land adjacent to our Dahej facility, earmarked for future expansion and the development of our manufacturing capabilities.

We continue to pioneer intelligent and sustainable solutions across industries, enhancing everyday life through our eco-friendly and technology-driven offerings. Our focus on innovation and customer-centric solutions enables us to stay ahead of industry trends, delivering value to products that are both high in quality and sustainability.

Alongside our eco-friendly product portfolio, we have implemented key sustainability initiatives across our operations. We have installed 5 KWP of solar energy capacity at our plants, reduced water consumption by 12,142.5 KL and responsibly treated and disposed 18,505 KL of water. Additionally, we have planted 1,500 trees around our facilities to promote biodiversity. Through our 3R Waste Management Policy, Reduce, Reuse and Recycle, we continue to minimize waste and optimize resource use, reinforcing our dedication to sustainability in every aspect of our business.

Lastly, we are pleased to announce the appointment of Mr. Gurudas Aras as an Additional Director designated as a Non-Executive Independent Director, effective October 19, 2024. With over 40 years of experience in the Textile industry, Mr. Aras brings a wealth of knowledge, including expertise in advising on robotics and automation, which will greatly benefit Rossari as we continue to innovate and grow across our business verticals.

As we continue on our growth journey, our focus remains firmly on sustainability, innovation and global expansion. We have laid a strong foundation for the future with our success in international markets, new verticals in our core chemistries and a drive for creating long-term value for stakeholders. While global expansion remains a key driver, we are also well prepared to capitalize on opportunities in the domestic market as recovery gains momentum, ensuring that we are positioned to drive growth across all regions.

With this, I would like to conclude my address and now hand it over to Mr. Ketan for his comments.

Ketan Sablok: Thank you, Edward sir, and good evening, everyone. Let me provide you with a brief overview of the financial performance for the quarter ended September 30th, 2024.

We have reported a steady performance in this quarter with revenues increasing by 3% to Rs. 498.4 crore. Our HPPC division saw Y-o-Y growth of 6% with revenues reaching Rs. 390 crore up from Rs. 367 crore in the previous year. The Textile Specialty Chemicals Division reported revenues of Rs. 84 crore, down from Rs. 96 crore last year, primarily due to the ongoing headwinds in this sector, though we remain optimistic about recovery in the next calendar year. Meanwhile, the AHN division remains stable with revenues of Rs. 24 crore compared to Rs. 20 crore in the corresponding period last year. In terms of the revenue contribution this quarter, HPPC accounted for 78%, Textile Specialty for 17% and AHN for 5%.

On the revenue split between domestic and exports, our exports have outperformed our domestic sales. Y-o-Y, our exports have grown by 21% while domestic revenues remain flat. For H1, the exports grew by 32% while domestic saw 5% growth. Exports now constitute almost 25% of our overall sales.

Our gross margins improved by 253 basis points this quarter on the back of our product mix and our efforts to optimize operations. The improvement comes despite higher costs associated with new growth verticals including the institutional cleaning chemical business. Our overall EBITDA increased by 3.6% to Rs. 65.9 crore up from Rs. 63.6 crore last year with EBITDA margins of 13.2%, stable despite the additional investment in these emerging segments. In terms of profitability, PAT for the quarter rose by 7.3% to 35.3 crore compared to 32.9 crore in the same period last year.

Our CAPEX initiatives announced last year are progressing well at both Unitop and Rossari Dahej facility. In the unit of CAPEX, the Board has approved additional investment of Rs. 18.25 crore enhancing the budget of the project to up to Rs. 146.25 crore. The additional budget is required on account of some design modifications, which were necessary to meet the revised project specifications and structural integrity. These projects will be commissioned in a phased manner over the next coming months. They are expected to significantly enhance our ability to serve high growth segments such as agrochemicals, home and personal care and specialty chemicals, providing a strong growth lever for the company.

Both the projects are being executed efficiently on ground and are expected to deliver asset terms of 3 to 4x. This aligns with our ongoing commitment to sustainably strengthen our return ratios.

On the balance sheet front, the net working capital days are maintained at similar levels as March 2024. Inventory days had gone up with some RM levels being increased for strategic reasons. Receivable levels are slowly coming down.

In conclusion, we are confident that with these investments, coupled with our strong operational framework, we are well positioned to capture opportunities as the business environment continues to stabilize. Our focus remains on enhancing capacity utilization, introducing new products and expanding our customer and geographical footprint to drive future growth.

That's all from my side. Just for informing the participants, Mr. Chari has been traveling, would not be able to attend the call today. And now I would like to request the moderator to open the forum for questions and answers that will be there. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead.

Pavan Kumar: Sir, can you give us the quarterly breakup of exports Q1 and Q2 and the same portion last year, Q1 and Q2? And secondly, I wanted to understand on the domestic side, what has been weak? Is it the Textile component or is it the Agri Home Care component or the non-Agri Home Care component? I would just like to understand what is the portion where the growth was limited.

Ketan Sablok: On the exports, you wanted the quarterly export numbers?

Pavan Kumar: Yes, quarterly numbers. Q2, how much was the export and Q1, how much was the export and same numbers if you can give for last year also for comparison.

Ketan Sablok: Exports for this quarter was about Rs. 130 crore. In Q1 we did Rs. 118 crore and Q2 last year was about Rs. 107 crore. And on H1 basis, our total exports was Rs. 248 crore vis-à-vis Rs. 187 crore last year H1.

Pavan Kumar: Can you just underline what went wrong on the domestic side? Was it on the Textile side or on the Home Care side? If it was on the Home Care side, was the problem on the Agri or non-Agri side?

Ketan Sablok: On the domestic front, if you see in the HPPC, I think the FMCG Home Care, the volumes were pretty flat. And with the RM prices coming down, we also had some pressures on softening our prices to pick up some volumes. That's where the HPPC growth has been a little softer than what we would have expected.

Also, the fact that the availability of EO and the capacities of ethoxylation currently running at almost peak capacities, our primary driver was that we should push more material into the export market because that's one area where we are constantly looking for growth, keeping in mind the future plans that we have. In material, while domestic demand was also not picking up, we concentrated more on pushing products in the export market.

In the Textile side the domestic volumes were pretty good. Good in the sense volumes were better than last year. The volume growth was about I think 6-7%, but we had a pressure on the pricing side and the prices had come down by about 6-7%.

Secondly, the export plan for Textile also took a hit during this quarter with both Bangladesh and Egypt, our exports were very, very slow compared to what we had anticipated.

In Bangladesh, in fact, in the last two months, the off-take was very, very less. While there were orders but given the conditions that were there and the LCs, et cetera, not coming through, a lot of the banking issues cropped up. We took a little bit of a backseat and did not supply any material till things got stabilized.

Currently, we expect, I think over the next month or two, Bangladesh should start coming back in terms of order placement and in terms of better banking line coming through so that we are safe on all the products that we start supplying. These were primarily 3-4 reasons for the volumes and of the top line not growing as per our expectation.

Pavan Kumar: And Home Care, you were saying it was a non-Agri part which was a problem, or both were the problem, Agri and non-Agri?

Ketan Sablok: No, it was more of the non-Agri part in the HPPC. The FMCG, Home Care, that's what I talked about. And anyway, the Quarter 2 Agri season is a little softer than what it is in Q1. Q1 is the peak season for Agro.

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

Sanjesh Jain: I got two of them. First, on the Textile side, I just wanted to understand whether it's a problem on the ground, or we are also losing market share to any of the competition. That's number one, because I can see some of our listed peers have been outperforming us now for probably 2 years, and we have been struggling not for just this quarter, but for the last 2 years or so, we have been struggling in the Textile segment. Again, on the AHN side of the business, we expected in FY25 to double our revenue, but the run rate seems to be much more softer than what we thought. So, what's gone different than what we estimated at the start of the year on the AHN?

Edward Menezes: Sanjesh, on the domestic front in Textiles, we have not lost any market share. In fact, YoY volumes grew, like Ketan sir just now reported, that YoY volumes grew by 6%-7%.

However, since you know that the prices of certain raw materials dropped like acetic acid, butyl acrylate, styrene or silicones because of which there was pressure on the finished goods product pricing and that is where you see a loss in revenue basically, whereas in volumes in domestic we have grown.

And again, Ketan sir also explained that Bangladesh and Egypt because of the geopolitical issues, we degrew by 4-5% in volumes in these two countries also. That's where you see a negative revenue growth, but having said that, our marketing teams as well as the R&D work very hard on the product mix offerings and we saw an increase in gross margins across the product groups helping us to maintain our EBITDA margins. And going forward also, we are looking at expanding our footprint in newer geographies and add sustainable products to our overseas offerings to grow this vertical in 2025. In effect, the Textile business has remained steady or in volume terms it has grown by about 6%-7%.

Coming to Animal Health and Nutrition, we are pretty steady here. Yes, I agree that we had expected higher growth. However, in the last year, we changed a bit of strategy. In the previous years, we had focused a bit on the feed component itself, not only on the additives but also on the feed components, but we found that this strategy was not working out well for us because we were taking a hit on the margins. We dropped that strategy of going in for selling the feed part of it. Instead of that, we focused more on the additives part of it. And so, if you see on a YoY basis, we have grown 20% in the specialty additives, whereas QoQ, Quarter 2 is the festive season and hence, every year, this is the weakest quarter for Animal Health and Nutrition business.

Going forward, Quarter 3 and Quarter 4 are traditionally the strong quarters for Animal Health, and we expect like our marketing says 1.5x the normal sales for Quarter 3, via-a-vis Quarter 2 or Quarter 1. I think AHN is in line. We will show healthy growth this year and even in Animal Health and Nutrition, we have taken actions to add consultants, improve our infrastructure. As we had informed in the past, we are setting up a premix plant and we are going to launch products in the therapeutic category as well as gut health improvers using our bioprocess technology. I think for us, Quarter 3 and Quarter 4 will give you strong results in Animal Health and Nutrition.

Sanjesh Jain: QoQ we have improved the gross profit margin by 120 basis point while our EBITDA margin sequentially has declined by 20 basis point and if you look at on a YoY basis also, we have increased our gross profit by 250 basis point while the EBITDA margin is up only 10 basis point. Forget about operating leverage, our entire gross profit margin improvement is also not getting captured into EBITDA. What is leading to this sharp improvement in the cost and when should this stabilize?

Ketan Sablok: I think, Sanjesh, part of this has also got to do with the expense. The other expenses as you see have increased during this quarter. They are almost Rs. 59 crore in this quarter compared to Rs. 55 crore in Q1.

Given that now we are focusing or at least the export piece is growing, the impact of freight expenses is showing up significantly in these numbers. The freight forwarding cost in this quarter has been significantly high while we have also had some professional expenses which have come up in this quarter. This is more resulting from some of the global restructuring that we are planning to do. So, we have hired some people. Also, in the Buzil business, there has been an increase in the number of employees in the last 6 months. All this has actually led to a good increase in the other expenses and in the employee cost and part of the gains that we got through the gross profit improvements have got negated with these expenses going up.

Sanjesh Jain: Is it fair to say that export business, because freight cost is borne by us, will always be a lower margin than our domestic business?

Ketan Sablok: No, see the way it is that now we are just growing the export business. With some of the existing customers, we are in a much better position to bargain for the freight etc. While some of the new geographies and the new customers that we are entering into, there are times where the freight expenses we need to bear.

I think it's just a question of time when these things will even off. Our target is that while we bear the freight expenses, we should bill them on actual freight. Even if it's CIF, whatever is the actual freight we should bill them. That's what we are talking to most of our customers. The freights have actually gone up a little unprecedented in the last 6 months. That's actually hitting us. But I think slowly we will be able to push most of these freight expenses back to the customers. Some of it is already built into the pricing, and the expense part is coming here under the other expense.

Sanjesh Jain: Just one last question on the domestic business, which appears to have declined. I thought we were also in the process to launch so many new products. Are they not helping us to offset some of the underlying weakness and decline is completely, I do not think the consumer business in India is declining. What has led for us for such a sharp reversal in the growth for the domestic business?

Edward Menezes: Actually, there is no great decline in the domestic business. What we have done like Ketan bhai already explained in his opening remarks, opening question. See, there is limited ethyline oxide availability, right? And we also have limited capacity for manufacture of the ethoxylates.

We saw an opportunity to gain market share in exports, and also realization in exports was quite healthy. That is one of the reasons why we have focused a little bit more on the export where we could grab some market share in certain geographies, whereas domestic has grown by say only 6-7%.

There has been a little bit of muted demand from FMCG as well as other verticals, home and personal care. But it is a very conscious decision to push our products more in export. The same products would have been also pushed in the local or domestic market, but I believe that we would have got lower gains.The marketing team really worked very hard on the product mix offerings both in the domestic and the export market. I think it's a game which we well played. You know, it was well played by Mr. Chari and his team who look after the sales and marketing and even help from Ketan bhai on the numbers front.

With the limited EO availability and the limited ethoxylation capacity, as he said that we are at peak capacity, this going forward will not be a problem is our opinion because we have already invested in expanding our capacities there.The loop reactors will become functional by I think end November or early December. Then again the ethoxylation capacity will not be an issue. And therefore, I think things will then average out there. And this was a great opportunity to grab the export business, whereas the local business was very, very competitive during this quarter.

Sanjesh Jain: No, but EO was not even part of our core four chemistries. We have this acrylic where we were launching few of the products. Then we had surfactant, silicon, so enzymes, right? EO was never even the part of core chemistry if it came with our acquisition to Unitop and we had a lot of launches planned in these four chemistry. EO problem I completely appreciate, and I know that that capacity once come in, that will drive additional growth. What about these four key chemistries of our and all the products that were supposed to get launched in these chemistry?

Edward Menezes: Sanjesh, I would like to beg your pardon to correct you. Surfactants was one of our four pillars and ethoxylates is the major part of surfactants that Rossari used to use. And therefore, the acquisition of Unitop, the logic behind acquiring Unitop was surfactants basically. I would like to correct you there that it is not our core chemistry. That is number one.

But however, having said that, if you look at the production at Rossari, as we said that we had introduced a lot of new products there. What has happened is in the last two quarters, we have produced a large number of esters like CAPB, CDEA, SMO, SML, Esterquat, as well as Resins, but these were consumed internally and therefore it is knocked off, you know, in the intercompany sale, you cannot see this sale. If you add both these together, then you will see that all these new products have been introduced now.

Now these new products have been introduced and have been consumed internally, because these are all the hydrophobes and the products that go into Unitop. First we focused on producing these new products, consuming them internally. Going forward, we will increase our, as in his opening remarks, Mr. Ketan has said that we have added capacities both at Unitop as well as at Rossari, these additional capacities when they come up, then these products will be available for sale to the domestic market as well as to the export market. So, that's how it goes.

Moderator: The next question is from the line of Rohit Nagaraj from Centrum Broking. Please go ahead.

Rohit Nagaraj: The first question again, delving on the ethoxylation part. You said the loop reactors will be functioning sometimes by the month of November. How will we progress from Reliance front in terms of EO availability and are we going to coincide EO availability with our commissioning or is there any other plan for the same?

Ketan Sablok: Rohit, currently the way we have planned is the EO availability, we are already talking to Reliance for additional quantities of EO at least starting of Q4. That's what indication they have said that they will start providing us additional volumes of EO. We will have to wait and see because these capacities will come up by the end of maybe November-December. Assuming we start off from January, we will start at least some part of production. It will take some time for it to reach its peak capacity. But we should have enough EOs to start the functioning of the loop reactors.

Rohit Nagaraj: Second question on the exports market. Particularly which sub-segments or user segments are we trying to tap? And how has been, I mean, which are the particular geographies or countries where we are getting this traction from?

Ketan Sablok: Sectors, I think, majorly home care, personal care, cosmetics and also on the agro side, these are the key sectors in HPPC and the key geographies I think continue to be Europe, South America. We are also now exploring some countries in the Middle East and Turkey is one of them.

On the Textile side, again given our current mix of products, we are looking at of course expanding in Bangladesh, assuming that business comes back at least probably towards the end of Q3, is what we are given to understand. And then, of course, Vietnam, Egypt. We are also looking at a few markets in North Africa for the Textile business. We have got some good feedback from there and so that will help us there. Turkey again becomes a market for us also for Textiles. These are broadly the geographies and the segments that we are looking at to drive growth.

In AHN, again we are looking at growing the exports in Bangladesh, Nepal, and Sri Lanka, a little bit in Philippines also. These are the close countries that we are looking at for AHN.

Rohit Nagaraj: One last question. In terms of the guidance that we had given earlier and looking at the first half performance, are we likely to stick to the guidance in terms of the top line growth and the margins front or do we want to reassess it? And just another question. Any issues in terms of getting the payments from Bangladesh and India for the exports market, is the working capital cycle higher than the domestic market or comparable?

Ketan Sablok: Rohit, I think on the forecast that we had given, I think I had said that we will be in a low double-digit kind of top line growth. I think I still expect that we will grow at that number around 12%-13%, I still anticipate that growth is going to be there, because if you see the H1 number, we are already around 11% top line growth. I think the second half should be better than that. I still expect that 12%-13% is what we will grow.

And on your second question, in terms of payments from Bangladesh, I think as I said, we faced issues in Bangladesh and that was precisely the reason why we went slow, 2 months actually we didn't dispatch much material into Bangladesh, keeping in mind the payment situation. It's still a little sticky over there, but from what our teams in Bangladesh tell us, I think probably another month or so and we anticipate December onwards it should be much better.

And in terms of the receivable cycle, I think the first half is generally higher given that we just passed the agro season where the payment stretches a little longer, probably towards the end of the year by March I think it should be much better than what we are as of September.

Edward Menezes: It's already coming down.

Rohit Nagaraj: Just on the operating margins front, whether we will be able to keep the same margins similar to last year or do we expect a slight dip given the operating expenses have been going up in the last couple of quarters?

Ketan Sablok: I think, we will stick to what we have done till now in H1, around 13.2%-13.3%. We will be around that between this and 13.5%.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Asset Management Company. Please go ahead.

Dhruv Muchhal: Sir, from your comments, it seems that the pricing pressure driven by RM has intensified in this quarter and hence the pricing, you mentioned there is a drag because of the pricing. Should we expect this to continue for the next few quarters until the raw material prices probably increase? Causing some drag, probably there will be volume growth, but the pricing will have some offset in the growth for the next few quarters.

Ketan Sablok: Dhruv, I think sitting today, we can expect that this trend will remain around the same level, and that's why we are trying to focus more on the export side where we see that these kind of issues on pricing and all are much lesser than what is there in the domestic market. And also given that now we have capacities where we can play around within either domestic or export, our focus continues to be to cater more to the export market.

In Textile also, I think we would have surely seen a good growth in the quarter had the situation in Bangladesh and Egypt not happened the way it has turned out to be because we had good set of orders for Q2 where we actually took a voluntary decision not to do it given the issues on the collection and things. But I am sure once that eases out, we will have the Textile exports also doing pretty well. We expect that these pricing issues which we see in the domestic side will ease out once we have a good export potential to push our product.

Dhruv Muchhal: I am trying to understand what is the pricing impact on a QoQ basis across our portfolio?

Ketan Sablok: It will be very difficult to say that.

Edward Menezes: Different verticals.

Ketan Sablok: Because they are very, very varied.

Dhruv Muchhal: No worries. Sir, the second question is, is it possible to share, what is the share of EO-based products in our overall sales?

Ketan Sablok: Ethoxylates is the major chemistry for us, surfactant, everything linked to surfactant. 70% of HPPC is all EO-based products.

Dhruv Muchhal: Of the HPPC, 70% roughly is EO-based products?

Edward Menezes: 60%-70% should be EO-based.

Dhruv Muchhal: 60%-70%. And you mentioned about backward integrating into, I think, Esters you mentioned which goes into the EO-based products. If you can give us some sense of what was the external purchase earlier, how much it backward integrate now and how much of the value are you capturing through this backward integration?

Edward Menezes: We do not have these numbers handy, but actually if you can get in touch with Ketan sir, he can give you all these things because we used to do a lot of job work or rather Unitop and Tristar would do a lot of job work for all these raw materials which have been completely 100% produced at Rossari now. That has been a big change within the group itself. I think Mr. Ketan can give you these ideas.

Moderator: The next question is from the line of Parth Mehta from Vallum Capital. Please go ahead.

Parth Mehta: Just wanted to know what would be the sales for institutional cleaning for this quarter and on the qualitative side, how was the institutional sales for the quarter?

Ketan Sablok: Institutional sales during this quarter is about Rs. 70 – Rs. 73 crore, around that number.

Parth Mehta: And about the annual guidance that you have given around Rs. 250 crore for FY25, do we stick to it? Any updates in the institutional cleaning during this quarter or we launched any new products or something?

Ketan Sablok: If you see for the first half we have done about Rs. 130 crore in the institutional business. Our take-off Rs. 250 crore, which we have said I think we are in line with that. And what was your other question?

Parth Mehta: Any new products that we have launched or any other update for the institutional cleaning?

Edward Menezes: No, in the institutional cleaning we have not launched anything new, but we have got new customer base. Also, what we have done is we have a lot of new brands which have been rebranded. We have rebranded our old brands. So, those are now taking shape. So, mainly, we have got a lot of government laundry business. We have got a lot of institutional cleaning business in airports as well as in the railways. So, that's the new business that we have got.

As far as new products are concerned I do not think we have launched anything, any new molecule. There may be new formulations for a particular cleaning application, but we have not launched a new molecule. Only one product that is new is the cleaning in nuclear facilities in India and I think a product there has been approved in about 25 facilities and we hope that's a good product to be in basically that category.

Parth Mehta: In the last quarter you had indicated that there are some margin pressures in the Animal Health side in the integrated and pre-meal segment, we are facing some advancements there. So, is there any improvement over there?

Ketan Sablok: Parth, I think we expect the second half now to be a much stronger half for us in terms of Animal Health. Yes, there have been improvements there. The issue there was more on in terms of collectability of the sales. We have been a little strict on that, going a little slow, but now I think things are much better. We hope, and we anticipate that the second half of this year would be much better than what we have done in the first half.

Moderator: The next question is from the line of Ravi Singh from Cosmic Horizon. Please go ahead.

Ravi Singh: The majority of our RM costs come from acryonitrile, which is basically crude linked. Now, crude prices have already started to come off and in a scenario where the wars kind of come to an end and crude price settles back to say the $55 to $60 a barrel. In other words, if crude prices correct by another 20%-25%, will our guidance of doubling revenue on the FY23 base hold or will there be a significant deviation?

Edward Menezes: This is quite an assumption, Ravi. If the crude prices go down to $50-$55, the prices are going to come down. I mean, it's very logical that the prices will fall selling prices. Then the focus will be more on the volumes and the margins that we can get from there, rather than just the revenue top lines.

Moderator: The next question is from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead.

Pavan Kumar: Sir, can you just outline the CAPEX for this year? You were talking about some modifications in existing capacities. I just wanted to understand the quantum of capacities that are coming online in the next 3-4 months. How much is the investment? And what is the potential return on optimum limit?

Ketan Sablok: We already have 2 projects going on, one at Unitop, the other at Dahej. We have already spent I think about Rs. 60 - Rs. 65 crore in this CAPEX. I think a similar amount will be spent over the next 6 months. Some of these projects will come up in Q3 and Q4 and some of them will come up in the first quarter of next year. That's what the plan is.

Pavan Kumar: And how much would be the potential? Revenue potential?

Ketan Sablok: We should do an asset turn out roughly between 3x-4x.

Pavan Kumar: I just wanted a clarification. Are we saying this quarter or in H1, to the answer to some other participant, I guess you mentioned saying there were new products that you have actually been actually developed, but they are being used as raw materials to your existing products. Is it the case that there has been some margin compression because of the increase in your freight expenses and stuff, which is not allowing the new product contribution to show up in the margins? Is that the right understanding or is there something wrong with my understanding?

Ketan Sablok: Yes, so in a way you can say yes, our freight forwarding, our overall expenses had gone up in this quarter compared to what it was in Q1. A major part of it is to do with freight forwarding, especially on the export side as our export market is increasing. A lot of the new customers that we are bringing on board in the export side, we are to start with bearing some of the export freight expenses, but our plan is that over a period of time, once we have a better partnership, better relationship with the customer, to build up all these freight-related expenses into the pricing.

You must appreciate that in the last few months, the freight expenses have gone up very, very significantly. It is not possible for us to immediately pass on the freight increases to the customer. It takes time. But it's a relation that we are building. It will happen over a period of time.

Pavan Kumar: Our overall guidance remained for the year since I think we were talking about 15% to 20% kind of revenue growth. Does that still hold or how are we looking at that?

Ketan Sablok: I am not sure when we spoke about a 20% revenue growth.

Pavan Kumar: I think about 15.

Ketan Sablok: We have always said that we will do a low to mid double-digit kind of growth. Given that half the year is gone, I think we should be around that number of 12%-13% kind of top line growth. That is what we are expecting.

Pavan Kumar: That is what is the realistic expectation.

Ketan Sablok: Yes.

Pavan Kumar: And one more thing. When these other expenses and everything settle down, because of the new product contribution, do we expect an increase in gross margins or what can the gross margins be once this whole or EBITDA margins be once these whole things settled down? What I am trying to say is on a normalized freight cost, what can that potential be?

Ketan Sablok: See, Pavan, as of now, it is very difficult for me to give any number on to that. My only submission is that in the current year and maybe half of next year, what we see is we need to start full utilization of our capacities, all the new products, the new initiatives that we are taking, that is the key for us to kind of meet and within that goal, the targets for the EBITDA are, if we are at the level that we have done in the first half, around that number plus minus a few basis points, I think we would be happy with that. Then probably once we scale up and we reach a certain product and revenue size, then we can look at further improvement in the overall margin, but currently this 13.2%-13.5% is what we are looking at.

Moderator: The next question is from the line of Rohit Nagaraj from Centrum Broking. Please go ahead.

Rohit Nagaraj: Just one question. Do we also have propoxylates in our portfolio?

Edward Menezes: Yes, we also make propoxylates.

Rohit Nagaraj: You have mentioned about 60%-70% ethoxylates. Is there any similar numbers for?

Edward Menezes: No, I mean EO, PO together is 60%-70%.

Rohit Nagaraj: And in terms of PO availability, are there any challenges given that I think it is completely imported?

Edward Menezes: Yes, if you do not plan well enough and there are some storage issues also because we are not a very large consumer of propoxylates, I mean propylene oxide. There are some challenges, but once we become large enough, probably then we can have some storage at the ports, you know.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Edward Menezes: Thank you, everyone. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call and good day to all of you.
