Camlin Fine Sciences

February 20, 2023

To, **BSE Limited**, 25, P. J. Towers, Dalal Street, Mumbai – 400 001 **Ref:** Company Scrip Code: 532834	To, Listing Department, **National Stock Exchange of India Ltd.**, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai- 400051 **Ref:** Symbol**:** CAMLINFINE || Series: EQ

Sub: **Transcript of the earnings call on the Un-audited Financial Results (Consolidated and Standalone) for the quarter and nine months ended December 31, 2022.**

In continuation of our disclosures' dated February 9, 2023 and February 14, 2023 respectively, and pursuant to Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR"), the transcript of the earnings conference call held on February 14, 2023 on the Un-audited Financial Results (Consolidated and Standalone) of the Company for the quarter and nine months ended December 31, 2022 is enclosed herewith and is also available at the Company's website at https://www.camlinfs.com/investorcallrecording.

The Management was represented by Mr. Ashish Dandekar, Chairman & Managing Director, Mr. Nirmal Momaya, Managing Director and Mr. Santosh Parab, Chief Financial Officer.

Discussions were based on publicly available information. No unpublished price sensitive information (UPSI) was discussed during the interactions.

We request you to take the above on record and the same be treated as compliance under the applicable Regulations of SEBI LODR.

Thanking You,
For Camlin Fine Sciences Limited

RAHUL SAWALE

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Rahul Sawale
Company Secretary
& VP Legal

Encl.: a/a.

"Camlin Fine Sciences Limited
Q3 and 9M FY 2023 Earnings Conference Call"
February 14, 2023

MANAGEMENT:	**MR. ASHISH DANDEKAR – CHAIRMAN AND MANAGING DIRECTOR – CAMLIN FINE SCIENCES LIMITED** **MR. NIRMAL MOMAYA –MANAGING DIRECTOR – CAMLIN FINE SCIENCES LIMITED** **MR. SANTOSH PARAB – CHIEF FINANCIAL OFFICER – CAMLIN FINE SCIENCES LIMITED**
MODERATOR:	**MR. ROHIT SINHA – SUNIDHI SECURITIES & FINANCE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Camlin Fine Sciences Limited Q3 and 9 Months FY '23 Earnings Call hosted by Sunidhi Securities & Finance Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohit Sinha from Sunidhi Securities & Finance Limited. Thank you, and over to you, sir.

Rohit Sinha: Thank you. Good afternoon, everyone. Thank you for joining us for Q3 and 9 months FY '23 earnings call of Camlin Fine Sciences Limited. I would like to thank the management for giving us this opportunity to host the call and would like to congratulate them for successful commissioning of vanillin plant and expanding capacity at Dahej. From Camlin Fine Sciences management, today, we have with us Mr. Ashish Dandekar, Chairman and Managing Director; Mr. Nirmal Momaya, Executive Director and Managing Director; and Mr. Santosh Parab, CFO of Camlin Fine Sciences Limited.

I now hand over the call to the management for their opening remarks. Thank you, and over to you, sir.

Ashish Dandekar: Thank you. Thank you, Rohit. A warm welcome to you, ladies and gentlemen, to the quarterly earnings call. As we've been doing each time, we will start by our CFO, Mr. Santosh Parab, giving you your brief synopsis and running you through the quarter's performance, after which all your questions will be answered by Mr. Nirmal Nomaya, MD.. Thank you and over to you, Santosh.

Santosh Parab: Thanks, Ashish. Good day and thank you for joining us on Camlin Fine Sciences Q3 FY '23 Earnings conference call. Before I begin, I would like to clarify that some of the statements made in today's discussion will be forward-looking in nature and may involve risks and uncertainties. Your attention is drawn to the Safe Harbour Statement made in our Investors presentation published on the stock exchanges and hosted on our website along with the unaudited financial statements for Q3 FY '23. I hope you were able to have a look at that.

As you are aware, high macroeconomic uncertainty prevailed globally in Q3, especially the situation in Europe and coal surge in China. After unprecedented growth observed in Q2 FY '23, we had to battle with the destocking across distribution channels and general market slowdown in Q4. Despite this ongoing deterioration in macroeconomic environment, CFS Group has been able to not only increase its gross margins but also give its EBITDA margin. The percentage level operational EBITDA improved by 140 basis points to 12.8% quarter-on-quarter despite the demand trends impacting the operating revenue by 19.7% quarter-on-quarter.

The revenues were also impacted by three weeks of maintenance shutdown in our diphenol unit in Europe as well as due to softening of diphenol prices in European markets. The trend has arrested to an extent by around 2%, owing to favourable formation across the globe. Our resilient business model, which proactively address the current challenges helped in improving gross margins, which were mainly fuelled by increased yields at diphenol unit in Dahej. Coming to the operating expenses; the surge in energy cost in European subsidiary observed in last few quarters eased to an extent in this quarter.

Subsidy to compensate high energy cost of around INR 15 crores was received from Government of Italy, which also helped to sustain margins. As compared to Q3 FY '22 that is last corresponding quarter, the energy cost in Europe still remain high. The unfavourable trend seems to be reversing but it all depends on how the Russian-Ukraine crisis pans out in the near future. Now coming to our operations of subsidiary, CFS Europe recorded an operating revenue of INR 99.3 crores in Q3 FY '23, despite all the issues I just discussed earlier.

CFS Mexico and its subsidiaries in the Latin American market were able to post an operating revenue of INR 88 crores and have effectively bucked the negative macroeconomic headwinds in that part of the world. In year-on-year 9 months period, the operating revenues of Mexico and its subsidiary have grown by 10.74% and are expected to grow at similar levels for remaining financial year. CFS Brazil posted an operating revenue of INR 29 crores and has been near to EBITDA breakeven.

We have embarked upon restructuring this organization to optimize the business and also introduce a cost mitigation program to reduce at least 20% of fixed operating costs, which will certainly improve the EBITDA in the year to come. CFS North America posted revenue of INR 24.6 crores in quarter three as compared to last year's 9 month period, revenue has grown by 35% year-on-year. That's a good situation looking at the way it has been performing during the COVID period. We are pursuing some exciting business opportunity in the US with some big business houses in the region, which should improve the profitability of the unit substantially in FY '24.

We certainly come back to you when the efforts rectify. CFS Wanglong our Chinese subsidiary remained closed due to the Supreme Court action in against our partner. However, we have substantially progressed in the approval procedure for change of use of the plant to a new aromatic product, which is a Catechol downstream. We are contemplating restart of the plant after refurbishing a part of it in the second half of next financial year. You are aware that our ethyl & methyl vanillin manufacturing composite plant commenced its commercial production on January 22, 2023. We are currently operating the plant above 50% capacity with a plan to ramp it up to 100% by the end of FY '23.

We have started the process of sampling of the product with large customers across the world. And the initial response about the product is more than satisfactory. We expect to start the supply post completion of accrual process before the end of this year. The prices remain high in developed markets, which in fact is a target market with the quality of our supply, this will certainly help to recapture our market share in Aroma market. As you are aware, this development will help to override the current meditative margins in Catechol.

Now coming to some of the balance sheet items; debt of the company, especially, despite destocking in the any market that had an impact on working capital, but the stress has been managed with effective financial management. The overall net debt stood at INR 667 crores as compared to INR 637 crores in September 2022. The increase was mainly on account of drawing of INR 47 crores from Exim Bank, which was part funding the capex of vanillin plant in Dahej.

Now coming to the scenario going forward, especially Q4 and thereafter, stabilizing of cat downstream through vanillin has led the company to concentrate more on H2 downstream products now. So products like MEHQ, HQEE, Chloranil, PBQ, Naphthol AS-IRG will be concentrated more for increasing their production, where we have available and identified capacities in the company. We feel that the macroeconomic uncertainty is likely to prevail in Q4, when the opening of China and general improvement in demand should bring back the customer confidence. The real picture however should emerge only after Q1 FY '24. Needless to say, the management of your company has in past is confidence of facing this challenge.

Thank you very much. We will now open the floor for questions.

Moderator: The first question is from the line of Prathamesh Sawant from Axis Securities Limited.

Prathamesh Sawant: My question is with respect to the vanillin facility. So just to make it clear, you are saying that it could take one more year for us to keep on with the sampling process and the commercial realization to the company's top line would start post FY '24 is what you are trying to say?

Nirmal Momaya: Post FY '23 is what of Santosh said.

Prathamesh Sawant: So from Q1, we can start seeing the commercial realization adding to the top line.

Nirmal Momaya: Yes.

Prathamesh Sawant: And what is the volume at 50% utilization levels? Are we seeing at 6,500 metric tons of production of vanillin?

Nirmal Momaya: Yes, 6,000 tons is the capacity.

Prathamesh Sawant: And sir, on the other end, the North America vertical of the business, saw some serious de-growth in the current quarter. So I just wanted to maybe get some clarity on that.

Nirmal Momaya: De-growth in the current quarter?

Santosh Parab: No, we have posted INR 24 crores of turnover, which is not a de-growth. The turnover last quarter was INR 16 crores. In fact, we have grown 35% year-on-year in the 9 months period.

Moderator: The next question is from the line of Raaj from Arjav Partners.

Raaj: I wanted to know how your FY '24 is going to look like?

Santosh Parab: Yes. So FY '24 is leading to UPSI But in the past, as we were saying that from next year, we will be getting the full benefit of the vanillin production coming. And we are looking at a growth compared to this year, growth in revenue of around 30% to 35%.

Raaj: 30% to 35% growth. Okay, yes. And how are your expansion plans going to plan looking at three to four years from now? What do you think the company should be after while?

Nirmal Momaya: So basically, our focus is on two or three lines of businesses that we're in. One is, of course, our diphenol chains. So all the downstream products that Santosh mentioned earlier on hydroquinone on stream will be expanded and will be built on. Our Aroma business will be expanded so that vanillin and some heliotropin and some other products that we have in the pipeline. And then we have, of course, our blend business, which is growing at about 30% a year and will continue to grow at 30% a year.

–Within the blend business, we also have good opportunities for expanding our portfolio of natural products, which is what will be the focus in the next few years to address the market for specialty natural products. We also have our Omega 3 fatty acid business, which will get scaled up in the next three to four years. So there is a lot of activity planned out for the next two years.

Moderator: The next question is from the line of Ravi Mehta: from Deep Financial.

Ravi Mehta: Just wanted to check on the HQ realizations. How has it been in Q3? And where are it currently?

Nirmal Momaya: Yes. So basically, in Q3, HQ, what we sold in Europe, the realization has come down because of the gas prices coming down. So we are at about around $9 or so.

Ravi Mehta: And ex of Europe, it's even further down?

Nirmal Momaya: I'm sorry, not dollars, EUR9.8 was the average.

Ravi Mehta: And ex of Europe?

Nirmal Momaya: Currently we're selling only from Europe. So really, that's where we are selling within Europe from Europe.

Ravi Mehta: So probably there's a commentary that probably you will now be focusing on HQ downstream because now that you have done with vanillin. So I was just probing from that angle that as the HQ prices come off, which makes sense for you to now go downstream ?

Nirmal Momaya: Our focus is only on our Dahej hydroquinone. So with the expanded capacity of Dahej hydroquinone now, we have hydroquinone available to us for value-added downstream products. So it's from that perspective, Europe will continue to sell hydroquinone in the European market. That does not change.

Ravi Mehta: And the steep drop in the power cost, the energy cost in Italy, probably that has helped you to report a good number -- so is the price further coming down looking at the stress coming out?

Nirmal Momaya: So what is happening there is you see the hydroquinone pricing is dependent on the energy price, right, Because that's where it gets passed on to. So what was EUR 11 plus in the quarter before came down to EUR 9 plus purely because energy costs came down. Very difficult to answer. It is stabilizing around this, but you never know when things will change.

Ravi Mehta: And on the blends, the quarterly run rate is really appreciable like you've been holding on to those levels. What I see is that the non-Mexican piece is growing faster, maybe on a lower base, but Mexico has been like now at a steady state for like a few quarters. so is that the market saturating from Mexico or?

Nirmal Momaya: No. So in some of the products, yes, we have very large market share. So we have a wholesome new product that we are in the process of launched or in the process of launching in those markets, which will give us the growth that we are looking at. We yet continue in the next year, we should be able to grow the Mexico market by least 20% with those new products also coming in.

Ravi Mehta: And Brazil seems to be an inflection point looking at the quarterly run rate of close to INR 30 crores that you're doing? So probably the growth here can be even faster. So any color here in the Brazil?

Nirmal Momaya: Yes. So I mean growth in Brazil will surely will be good, but I think we have a better opportunity right now in the US, where we are in the process of now negotiating and actually getting some large volume customers in the Pet Food industry, which we hope from April onwards, the business will come on stream, and this can be substantially higher than what we've done in the past.

Ravi Mehta: So nothing of that is reflecting in Q3 numbers? Like you already done INR 24 crores.

Nirmal Momaya: Yes, nothing of that. No.

Ravi Mehta: So this can stay at a steady state and further the new client addition can happen from next year?

Nirmal Momaya : **Yes**

Moderator: The next question is from the line of Amey from Banyan Capital.

Amey Chheda: Sir, I missed your comment on vanillin, you told that the revenues will come from next year. Why is that the case, sir?

Santosh Parab: We didn't say that. So vanillin we didn't say that next year, we started the plant only in January. So we are ramping up the production, we have sent for sampling because once the plant starts, you have to qualify your plant and send for the sampling. So we have sent for sampling. We are certain that there are already samples have been passed in many customers.

We are certain that we'll start supply to these customers before the end of the year. In the meantime, we are also ramping up our production, which is at 50% at this moment of time ,near to 100% by the end of this quarter. So sales will start in this quarter, some extent, but the real production will start from quarter one, '24.

Amey Chheda: So what are the revenues that you are expecting in this quarter from vanillin?

Santosh Parab: So it's difficult to say. But we feel that we'll be doing a fair bit of revenue.

Amey Chheda: Any guidance for the next year, sir, maybe what is the current price of vanillin, sir?

Santosh Parab: So in the international market, like US and Europe, on which we are looking at that market, the prices are $14 and $15-plus. And we feel that it will remain at that level because as you know, a lot of vanillin comes from China. And there are anti-dumping duties levied on Chinese vanillin in US. So there's hardly any Chinese vanillin going to US, the prices remain high.

In India, there have been at $12, $13 but that's because of, $13.5 that's what's Solvay's has been telling. But the customer in India has to also pay to 8% custom duty on that product. So mandate price in India also is $14, $14.5. So the prices are at $14, $14.5, in the developed market are much higher but we are looking more on the developed markets.

Amey Chheda: So you have to run your plant at minimum 50% capacity. So at least INR 350-odd-crores or 3,000 tons you will be selling next year, right?

Nirmal Momaya: Yes. That is the expectation of about INR 300 crores or so.

Amey Chheda: And sir, what would be your gross debt? You told the number for debt.

Santosh Parab: Gross debt is INR 778 crores, and we are sitting on INR 110 crores of cash and this is cash from the business. There is no cash lying from borrowers.

Amey Chheda: Sir, just two questions more. So sir, can you give a number of profit before tax for the subsidiaries for this quarter?

Santosh Parab: No, we don't give those numbers. You can go and see on website because we host those numbers on the website, all the balance sheet of subsidiaries are on the website.

Amey Chheda: But that will be for the first half, anyway. Sir, any update on Lockheed?

Nirmal Momaya: So Lockheed, the same as last call that we have an order for their first commercial battery, which we have to supply by Q2 of FY '24, end of Q1, and it's on track for that. And further orders are all in discussion. So once they have commercialized and sold commercial batteries in locations, the next step will be discussed.

Amey Chheda: So this is just a trial piece that we are sending for them, right? No major businesses.

Nirmal Momaya: It's their first commercial order.

Moderator: The next question is from the line of Manan Shah from Moneybee Investment Advisors.

Anurag Roonwal: This is Anurag Roonwal: here from Moneybee. My question is regarding vanillin. So the prices, they used to be around $24, $25. And they have come down significantly to $13, $14 that you mentioned some time back. What I would like to understand is that, I mean, in terms of capacity is it because of new capacity, which has come up in vanillin or is it more related to demand perspective that the prices have come down?

Because my understanding was that, I mean, we would be coming up with significant capacity, no other player is sort of adding on capacity. So the prices would sort of, there won't be a significant fall in prices, but this all seems to be quite significant.

Nirmal Momaya: So basically, if you see all raw material prices have also come down considerably. Generally across the board, we are seeing prices cooling off, logistics costs have come back to pre-COVID levels, which had gone up by 5x. So general cost drops have happened and are happening as we speak. So a lot of the vanillin pricing coming off is also because all raw materials pricing, which goes into the vanillin have come down by more than 20% and 40%.

As far as capacity addition goes, we are playing in a market where our principal competitor is Solvay, which is a European company. And our target market is really in the US and Europe, where high-quality vanillin is preferred and we and Solvay are the only two companies that are fully integrated, starting from catechol, making catechol to vanillin an which is the reason why they've always been preferred suppliers in the developed markets, and we are pushing ourselves into that position as an alternative to them.

Anurag Roonwal: But our capacity being around 20% of the global capacity, do you think we will also add on to the pressure?

Nirmal Momaya: It's possible. It's possible that there will be some price pressure may come. But that's okay. I mean, we factored that in.

Anurag Roonwal: No, because the earlier, I mean, when we used to sort of discuss on vanillin, my understanding was that we used to in our projections we used to take around $16 per kg kind of rate -- now it's come to $14 and with our capacity coming up, I think the projection should be lower even further.

Nirmal Momaya: . Very difficult to answer your question. But our internal target is that the pricing should stabilize around $15.

Anurag Roonwal: Around $15. Okay, okay. And our cost of manufacturing is around $11, right,?

Nirmal Momaya: No, it's lower than that. All raw material prices have come down, so it's much lower than that now.

Anurag Roonwal: So in terms of EBITDA, you think we should make good margins in this, 20% kind of margins?

Nirmal Momaya: Yes.

Anurag Roonwal: And in terms of catechol, we were making losses in catechol. What's the scenario right now?

Nirmal Momaya: It's the same. It continues to be the same.

Anurag Roonwal: So we were sort of losing around $1.5 in catechol, that remains the same?

Nirmal Momaya: No, in Europe, we were losing close to $4.5. In India, we were losing close to $1.5, and it continues to be the same. In Europe, it has come down slightly because raw material prices have come down, so the losses have come down. Even here in India, it's about $1 now, the loss from $1.5 because costs have come down.

Anurag Roonwal: But the Indian losses sort of get absorbed vanillin, right?

Nirmal Momaya: Yes.

Anurag Roonwal: But in Europe, the hydroquinone price was sort of -- hydroquinone was sort of compensating for catechol, whereas that again remains the same?

Nirmal Momaya: That continued in this quarter, yes.

Moderator: The next question is from the line of Abbas Punjani from InCred Capital.

Abbas Punjani: So my question was regarding the vanillin. So just wanted to know the tonnage of the vanillin for this quarter and that's it?

Santosh Parab: We didn't get the question. Can you just repeat the question, please.

Abbas Punjani: How many ton of the vanillin we have done?

Santosh Parab: We have been running the plant at 50% capacity. Our annual capacity is 6,000 metric tons. Our plant has been continuously running from 22nd of Jan.

Abbas Punjani: 50% capacity, okay.

Moderator: The next question is from the line of Harsh Jhanwar from Centrum PMS.

Harsh Jhanwar: I wanted to further know on the vanillin. Sir, what will be our current cost of manufacturing for vanillin? You said it's below $11,

Santosh Parab: We just answered that question.

Harsh Jhanwar: Exactly, we have said that our cost of manufacturing has come down. So 6 months prior from here, you said that it's $10.5. Just trying to get the more accurate number on cost of manufacturing.

Santosh Parab: We did sub-$10. The question came earlier was whether our cost is $11. We said that it has come down. It is sub-$10 now.

Harsh Jhanwar: And sir, on Lockheed deal, sir, once we supply the commercial order, can you help us understand the time line when we can expect a bigger order 6 months, or what should we expect in terms of mixed order?

Nirmal Momaya: Subsequent orders will be probably towards the end of FY '24.

Harsh Jhanwar: Towards end of FY'24?

Nirmal Momaya: Yes.

Harsh Jhanwar: And next is regarding now that vanillin plant is commissioned, so what will be growth drivers after from FY '24? So they have not announced any major capex as such. So I just wanted to take an update on that.

Nirmal Momaya: No. So we have surplus capacity, which we are filling up on some of the down streams. And vanillin itself will take 2 years to scale up to 100% from a market perspective. So as an when we go along, there are several products in our HQ downstream, which we are scaling up like any HQ para-benzoquinone, HQEE, Chloranil, naphthol, there are all those products, which are in the process of being scaled up and we'll add capacities as we go along.

Harsh Jhanwar: In order to understand, you said that by end of this year, we are looking to reach 100% capacity utilization. Then now you said from a market perspective, it will take 2 years. I did not get that.

Nirmal Momaya: No, I said we can produce at 100% capacity, but the market will define how much we will produce. That is what it means.

Harsh Jhanwar: So for first year, we are looking at operating at a lower capacity utilization. And later on, slowly moving to 100%. Is that right?

Nirmal Momaya: Correct. That is right.

Moderator: The next question is from the line of Shivaji Mehta, an Individual Investor.

Shivaji Mehta: So I had a question on vanillin. If you can provide some color on the demand and supply situation, what is the demand expected to grow by? And also, is there some new supply that is coming up?

Nirmal Momaya: There's no new supply. We've just built the capacity and the market is growing at about 4%.

Shivaji Mehta: Right. So also this topline that we had guided for about INR 2,500 crores by FY '25, now with the vanillin prices expected to sustain at these levels, would you like to kind of keep the guidance at the same levels? Or can this move upwards from here?

Nirmal Momaya: So there is a possibility of it moving upwards. But at this point of time, it's too early in the day to say what the pricing will look like for all the products.

Shivaji Mehta: Right, right. Also on Lockheed Martin, post FY '24, once you're able to deliver on this order. Just trying to understand, can this be a significant contributor to our top line, say, 10%, 20%. Is that something that Lockheed Martin can do post FY '24?

Nirmal Momaya: Yes. It depends on how successful, ultimately, their product is in the market. So it's contingent on that. And we think and we believe that they are on a very strong position in the technology and in the development. So there's no reason why it will not be successful. If it is, yes, it has a possibility of being more than 10%, 15% of our business.

Moderator: The next question is from the line of Abhishek Navalgund from Nirmal Bang.

Abhishek Navalgund: So my question is also on vanillin. So basically, if I'm right, I think the Solvay has recently launched the first ISCC PLUS certified mass balance vanillin by end of January, wherein they are saying that this certification is mainly related to the better sustainability and also capability of the feedstocks, green feedstocks. So just trying to understand whether it will change the demand dynamics wherein at least a bigger company would prefer those kind of products? And also second question is, whether we are also planning to have this kind of certification in place? Because, like you mentioned, this is mainly for the developed markets wherein we are also present. So just wanted some clarity on that, sir.

Nirmal Momaya: Yes. So it's a process that we have embarked on purely because I mean, ESG is in itself a topic for conversation which will take ours. But the question really is in the developed markets, every large consumer is looking for net zero or carbon-neutral products and it's an endeavour which all companies are setting out targets in the next 5, 7, 10 years to reach that. So as long as you have a process and procedure in place to go up the chain and achieve those targets, I think companies are happy to deal with you.

Moderator: The next question is from the line of Ankit Shah from Envision Capital.

Ankit Shah: So for the past period, we had acquisitions and raising of debt. This year, will we be, in FY '24, will you be operational cashflow positive, and so it will reduce debt?

Santosh Parab: So we will be increasing our turnover also. And the endeavour is to not go for a huge capex in this year. We feel that internal accruals will take care of our maintenance capex, which is around INR 20 crores to INR 30 crores per annum. As far as working capital goes, for the initial 6 months, we may require INR 20 crores to INR 30 crores working capital requirement, but this will be tapering down by the end of the year, next financial year. Secondly, we are also sitting on the FCCB 15 million, which is at the option of IFC and is likely to get converted at INR 105 crores, which brings down around INR 115 crores, INR 120 crores of my debt.

Moderator: The next question is from the line of Surya from PhillipCapital.

Surya: Yes. In fact, I joined a little late. So possibly, there could be some couple of repeat of questions, sir. First question is on the, let's say, the stand-alone performance, what we are seeing in terms of revenues, there is a sequential sharp decline. It is entirely due to the price correction or something else is driving down the revenue this quarter, sir?

Nirmal Momaya: This quarter, it's volume and price, both; more volume than price because we did see some destocking that happened in large customers globally. People have built up stuff in the last year of the first few quarters. And the slowdown started from October. And what we saw was that there was substantial destocking ongoing through that quarter till December. From January onwards, again, there has been a pick up, and we expect that by April, I think it should be back to normal.

Surya: Okay. So now ,just an extended question, sir, to this, to understand the growth trajectory for, let's say, FY '24 and '25 better. So we have talked about a product like MEHQ to be a kind of meaningful one going ahead. But so far, possibly not been the case. Now we are having the vanilla also that would be contributing. So if you can talk something about your key contributing products going ahead to the growth?

Nirmal Momaya: Sure. So vanilla, as we know, in the next 2 years, we should be able to fill up the capacity. And that is almost INR 700 crores, INR 800 crores kind of opportunity.. MEHQ again is a key product for us now since we have our own hydroquinone made in Dahej to be value-added and sold. So we see ourselves playing a very strong growth in the MEHQ market because the package or HQ and MEHQ to a customer, we actually pack it and actually producers require both as a product.

And that's the package that we are offering in the market. And since January of this quarter, this year, we've started now entering the MEHQ market. You will see traction in the next 2 years where we expect that we should at least say 50% market share in the MEHQ market on a global level.

Surya: So that means FY '24 from that angle is a kind of an important year at least from the perspective for these 2 products, right, vanilla as well as this thing?

Nirmal Momaya Yes. And also, our focus also will be on 2 or 3 other HQ down streams. So there is HQEE, which is gaining traction again. HQEE, we've been seeding the market for the last 1 year, and now we've kind of got established in Europe and establishing ourselves in the US So next year, I expect some growth to come from HQEE. Then there is para-benzoquinone, where we are launching that product also in this quarter, and we expect traction to come from the second half of FY '24. There is naphthol IRG, which is a yellow pigment, precursor to yellow pigment, which also we will be launching now by the end of this quarter.

So next year, you will see a lot of action coming from there because none of the producers of any of these products are fully integrated like us, where we start from basic raw material to the finished product. So there are opportunities in these products, which I think FY '24, '25, we will exploit as much as we can based on capacities available with ourselves as well as the third-party tollers and contract manufacturers.

Surya: So in fact, again, on that growth aspect, sir, so basically -- we have seen with the crude normalizing, crude price correcting, the energy cost normalizing across various parts of the world. So the chemical product prices also witnessed some kind of a repricing, which was to the tune of 10 to 20 kind of percent a correction in the prices. So despite that, the growth for FY '24 would be, definitely should not be compromised for us. Is that the understanding,

Nirmal Momaya: Yes, that is the understanding. In fact, on a volume basis, we expect to grow considerably as compared to FY '23. But the pricing is not so much in our hands. But even with the corrected prices had an impact on our raw material pricing as well. Those have also softened. So overall, on a profitability basis, also, I think the pressure, of course, will always be there when prices come down, but I think the volume growth we'll be able to counter that.

Not only that, but also like Santosh mentioned in his speech that improving yields and improving our processes and technology is something that we're working on very seriously through our R&D team. And we expect a few percentage points of margin to improve purely based on all that work we are doing. That's why we are trying to negate everything. I mean we know that prices are coming off. We understand that there will be pressure, and that is going to happen in the next 12 months. So we're trying to mitigate it by improving all our processes here.

Surya: Sir, just two point that I will touch upon, if you can talk on that. So this conversion of the China plant to heliotropin, so where is that currently? And when could that really start contributing to the numbers, if we can discuss on that if you can say that? And secondly, even on the LM, so now onwards from the modelling perspective, everybody will start building FY '25 also. So if you can give some sense about that?

Nirmal Momaya: So on heliotropin, we have moved further on our approval process. So we expect the approvals to come by end of Q1 FY'24, and we'll start to work on the plant thereafter. And we should be, hopefully by end of FY '24, ready with the product. So FY '25, you will see some traction for heliotropin. Then on LM, FY'24, of course, we've already logged in 1 supply that we need to do. FY '25, there is some negotiations going on, but then we have very limited capacities available right now.

So our capacities are roughly about 800 tons a year, which I think FY '25 will get filled up because they already have some orders in the pipeline, which will fill that up. But the real question then will come during FY '24 during this next year is when will another plant have to be built and on what basis and all of that. So that's a discussion that will happen, I think, during this year.

Moderator: The next question is from the line of Jayesh Mestry from Asit C. Mehta Investment Intermediates.

Jayesh Mestry: I do have a couple of questions on margin expansion and another on growing -- like growth going ahead. So my first question is like, as we're aware about like recently like we can say is keeping in mind and India specialty chemical market size and growth momentum is like almost good. And this segment is growing fast in our country and is further expected to reach around -- please make me correct if I'm wrong, 60 billion to 70 billion by 2025. So what's your view in terms of growth prospects? And are there expansion opportunities coming here?

Nirmal Momaya: So we expect to grow at 25% a year, going forward for the next few years. That's our expectation.

Jayesh Mestry: And as you already know, that this sector is highly capital intensive with a long payback period, as you might be aware. and different budget also, the measures have been shared by our Finance Minister, Shri Nirmala Sitharaman in order to encourage the large capacity expansion and capital subsidies for investment. So what's your take on this move by this year budget and company's futures with opportunities in this area?

Nirmal Momaya: I don't think they've given anything much for subsidies for chemical companies. So we have to continue to do what we have to do. I don't think there are any big swaps or benefits which have been offered to us.

Jayesh Mestry: Sir, any kind of margin expansion we should expect from the vanillin plant and commissioned and the Dahej running at almost full with expanded capacity?

Nirmal Momaya: Yes. I mean that is the expectation that from a loss-making product catechol,catechol to vanillin, it will be margin accretive and there should be a margin expansion once we have full credit in the vanillin market.

Jayesh Mestry: So my last question is like, what should be the growth for 2024 and '25 on the revenue front and EBITDA front,

Nirmal Momay=: We basically would grow at about 25%, like I mentioned. And EBITDA margins will expand as a consequence of that, and as a consequence of vanillin, yes.

Moderator: The next question is from the line of Abbas Punjani from InCred Capital.

Abbas Punjani: So again, one question on vanillin. So have you started supplying vanillin to the clients?

Nirmal Momaya: No, we are yet sampling. I think Santosh answered that question.

Moderator: The next question is from the line of Prathamesh Sawant from Axis Securities Limited.

Prathamesh Sawant: Yes. So just to clarify on my earlier question. So when I mentioned that North America revenues were down 80%, so it was year-on-year. So I saw that we were doing INR 100 plus crores revenue last Q3. Just wanted to understand what has happened there and can we move back to that level in the coming quarters as you said you have new orders lining up from Q2 onwards.

Santosh Parab: Prathamesh, I think you're confusing CFS Mexico with CFS North America. Our Mexico was doing around INR 90 crores, INR 91 crores. North America always did INR 15 crores, INR 20 crores. Are you asking a question on Mexico?

Prathamesh Sawant: No, no, North America. So a year back, it was you're saying INR 10 crores.

Santosh Parab: So last year, the 9 months, it was INR 42 crores. This 9 month it is INR 58 crores.

Prathamesh Sawant: And sir other question is on the further derivatives of HQ. We are also seeing certain price pressure on MEHQ prices. So going forward, do you expect these products to be having lesser margins compared to the HQ margins?

Nirmal Momaya : No, it's a value added to HQ.

Prathamesh Sawant: But from a channel checks, you are seeing certain prices for certain further integrations slightly lower. So can you just give an idea do you see these prices higher than earlier? Or where...?

Nirmal Momaya: So MEHQ prices will also come down, all chemical prices are softening as we mentioned earlier. So even MEHQ prices will come down as a consequence of all raw material prices coming down. That's a consequence should be in the selling prices are coming down.

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

Ashish Dandekar: Thank you for being with us, ladies and gentlemen. We value your time and we look forward to interacting with you in the next conference call. Thank you.

Moderator: Thank you. On behalf of Sunidhi Securities & Finance Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.