



# SIGACHI INDUSTRIES LIMITED

CIN : U24110TG1989PLC009497

AN EXCiPACT GMP, ISO 9001:2015 & FSSC 22000 CERTIFIED COMPANY



Date: 21.05.2022

To,

<b>The Manager BSE Limited P. J. Towers, Dalal Street Mumbai-400001 (BSE Scrip Code: 543389)</b>	<b>The Manager, NSE Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai- 400051. (NSE Symbol: SIGACHI)</b>
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Dear Sir/Madam,

**Sub: Transcript of the Earnings Call for Q4 FY 2022 Results held on 16.05.2022**

**Unit: Sigachi Industries Limited**

In continuation to our letter dated 17.05.2022, audio recording of Q4 FY2022 earnings call, please find attached herewith the transcript of the earnings call held on Monday, May 16, 2022, 10:30 AM IST. The same is also available on the company's website at [www.sigachi.com](http://www.sigachi.com).

This is for the information and record of the exchanges.

Thanking You,

Yours faithfully

**For Sigachi Industries Limited**

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by SHREYA  
MITRA  
Date:  
2022.05.21  
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**Shreya Mitra**

**Company Secretary and Compliance Officer**

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**Sigachi Industries Limited**  
**Q4 FY22 Earnings Conference Call**  
**May 16, 2022**

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**Moderator:** Ladies and gentlemen, good day welcome to the Sigachi Industries Limited Conference Call. 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 \*, then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal. Thank you and over to you, sir.

**Anuj Sonpal:** Thank you. Good morning everyone and very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Sigachi Industries Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the fourth quarter and financial year ended 2022.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings concall may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results that differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me introduce you to the management participating with us on today's earnings call and hand it over to them for opening remarks. We firstly have with us, Mr. Amit Raj Sinha - Managing Director and Chief Executive Officer. We also have with us, Mr. O. S. Reddy - Chief Financial Officer. Without any further delay, I request Mr. Amit Raj Sinha to start with his opening remarks. Thank you and over to you, sir.

**Amit Raj Sinha:** Thanks a lot Anuj. A very good morning everybody. It is a pleasure to welcome you to our first ever earnings conference call for the fourth quarter of the financial year 2022. Firstly, I hope everyone is keeping safe and well. Given that this is the first ever earnings concall, in the interest of some of the people who are new to the company, let me first start by giving a brief overview of the company after which Mr. O. S. Reddy, our CFO will brief you on the financial performance of the quarter under review.

Sigachi Industries was incorporated in the year 1989 and today, we are one of the largest manufacturers of Micro Crystalline Cellulose in the world. Our company manufactures high quality cellulose-based excipients, which predominantly find usage in the pharma, supplement and the food industry. The company has created a niche in manufacturing highly innovative pre-formulated excipients and are using and selling 60+ widely used excipients of international quality and standards apart from customized solution for customers. From our state-of-the-art R&D facility, we ensure continuous innovation to efficiently meet evolving customer demands. We have two manufacturing facilities in Gujarat and one in Telangana from where we ensure supply chain reliability for our customers in India and across the 47 countries through the exports. Our total capacities from all these three facilities is more than 13,000 metric tons per annum which we are further enhancing through our ongoing CAPEX plans to reach 20,000 metric tons per annum. We at Sigachi have a global sales and distribution network and exporting to more than 47 countries across Asia, America, American continent, Europe and Middle East. I will now request the CFO to brief you on the financial performance after which I will give you an operational highlight for the quarter and the year. Over to you.

**O. S. Reddy:**

Thank you Amit sir and very good morning everyone. Let me first brief on the fourth quarter financial performance first and then the full year financial performance. The operational revenues for the fourth quarter were Rs. 72.5 crores which grew by 40% year-on-year. EBITDA reported was Rs. 14 crores growing appropriately 28% year-on-year and the EBITDA margin stood at 20.15%, net profit after tax reported was Rs. 11.6 crores, an increase of 28% year-on-year while the PAT margin percentage was 16%.

Coming to the full year financial for the financial year ending 2022, the operational revenues were Rs. 250 crores, a growth of around 30% year-on-year. EBITDA stood at Rs. 53 crores representing a growth of about 37% year-on-year. EBITDA margins were reported at 21.21% while the net profit stood at Rs. 40 crores, an increase of 32% year-on-year while PAT margin improved to 15.98%. Now, I hand over the call back to our MD to give you the operational highlights.

**Amit Raj Sinha:**

Thanks a lot, OSR. On the operational front, our revenue growth was mainly driven by the increased demand of Micro Crystalline Cellulose across all the industries with volume growth of nearly 13% and realization growth of nearly 19%. We were able to successfully pass on the higher input cost to the customers which marginally improved our margins on a quarter-on-quarter basis. The blended capacity utilization across all the three plants increased to 93.27 in FY22 as compared to 89.29 in FY21. The sale of export products increased to 75.4 in FY22 from the previous year of 73.6 with continuous efforts enhanced the global client base to marketing and customized products for various applications as per the requirement of the customer.

The company is constantly thriving to improve upon its R&D capabilities and cost-effective manufacturing processes and thereby remain as a manufacturer of choice with highest quality standards and the certification. The consumption of material has reduced to 48% from the 52%

due to adoption of cost-effective processes and product mix and our focus on high margin yield product mix and cost-effective manufacturing processes and effective management of inventories resulted in increase in EBITDA and profitability for the year 22.

For the coming years, we expect that the growth trend will continue with the current profitability at sustained levels. Furthermore, our capacity addition will be in the later part of FY23 and will also be contributing to the additional revenue growth in the coming financial year. With that, we are open to the floor for question-and-answer session.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Amit Kalyanpur from East India Securities. Please go ahead.

**Amit Kalyanpur:** Sir, my question is that while we have seen revenue growth on a quarterly basis, which is significant, we have also seen a significant rise in the receivable period, I believe on a year-on-year basis, I think it has moved from about 70 odd days to about 88 odd days, so what could be the reason for this and do you think this is a sustainable receivable period going forward?

**O. S. Reddy:** In the last quarter, especially in last quarter of the financial year, the receivable, the sales turnover itself is very high which automatically leads higher receivables, that is one part and another part is, some of our longstanding customers, they requested for little higher period as part of their onetime request because of this it is slowing slightly higher when we compare to previous year.

**Amit Kalyanpur:** So do we expect receivables to come back to the previous year levels?

**O. S. Reddy:** Yes, it will come back, already it has come down post 31st March 2022 and it will further improve

**Amit Kalyanpur:** Sir, my second question is, what could be the capacity utilization is expected in FY23 and 24?

**O. S. Reddy:** 23-24 capacity, right now, we are running 22-23 financials, in the last quarter, the expanded capacities will come into place, the brownfield project which the expansion is going on at our Dahej and Jhagadia units and 23-24, gradually it will increase. The total capacity available would be 20,000 metric tons and it may be reaching around 17,000 metric tons or so into operational

**Amit Kalyanpur:** In the current financial year?

**O. S. Reddy:** Not in current financial year, , 22-23, in current financial year right now we are at 13,000 metric tons, maybe we expect around 1000 metric tons more because the expanded capacity will come in the last quarter, that too we will not be able to utilize the complete capacity, around 1000 more, 14,000 metric tons would be there.

**Moderator:** Thank you. We have the next question from the line of Rajesh Kumar from NV Investment. Please go ahead.

**Rajesh Kumar:** Sir, my first question is, we are still company having depending on a single product, so is there any plans to derisk it because most of our competitors have other different types of products to sell, so is there any plan from the management to derisk this?

**Amit Raj Sinha:** This is a very valid question you have, if you see our product portfolio, historically we were only one product which was Micro Crystalline Cellulose. Gradually, we have moved on to integrate other inactive ingredients or other excipients into our four So with that we are having pre-formulated excipients, so that is a value add to what we were already doing. Pre-formulated excipients itself has to take in such other ingredients before it can be sold out to the customer. So that is the value add. Over and above that, like it was there in our RHP, we are looking to expand into Croscarmellose which is a cross-linked cellulose, so that is another related diversification. As regards, going beyond this, there are certain activities on the cable which are underway. As and when things get firmed up and it is appropriate, we will be declaring to the stock, sir.

**Rajesh Kumar:** Sir, you mentioned about the Croscarmellose Sodium which we are coming up in Telangana state I think in Kurnool or somewhere, sir, who are the competitor for this product in India? How are we going to differentiate ourselves from the competition? And last is, why the margins and realizations are better in this product? I repeat it once again, sir, who are the competitors for this product?

**Amit Raj Sinha:** We have the world number 2 Indian joint venture company by the name of Gujarat Microwax based out of Ahmedabad in India. They would be our prime competition and across the world it will be DuPont. DuPont has another brand for Croscarmellose Sodium and the Gujarat Microwax has a local brand for Indian market and they export also to an extent. So these are going to be our prime competition.

**Rajesh Kumar:** Sir, now, how are we going to differentiate ourselves from the competition to get this business in our favor?

**Amit Raj Sinha:** It will be a mix of the quality attributes of the products and the pricing. When you have the world leader, there is always a premium and there are supply chain issues in terms of minimum order or there are world leaders usually are very stringent in terms of the way they operate. We will give flexibility to our customer. The very fact that we have 60 excipients, 60 products in our Cellulose line of portfolio which even the world leader don't have indicate our affiliation with the customers and their feedback and we coming back with products which are actually meant for their specific purpose and this is what is going to differentiate us from, this along with the mix of quality and pricing would differentiate us from the other world leaders.

**Rajesh Kumar:** Sir, in the same I want to ask was, why the margin and realization are better for this product compared to our existing product?

**Amit Raj Sinha:** That is right, sir. We expect margins and realizations to be better than our current lines of MCC product and pre-formulated excipients.

**Rajesh Kumar:** So what are the reasons, is it because there is not many players making this product or what are the reasons, we will get higher margins in this product?

**Amit Raj Sinha:** That is a very typical question, sir. One of the prime reasons are that this is a very technical product, much more technical than what our current line of product is, so that explains your first point that there are not many players, rather there are not many players who actually produce of the quality what is required by the customer.

**Rajesh Kumar:** So is this product is getting imported currently, sir?

**Amit Raj Sinha:** This product is also getting imported currently.

**Rajesh Kumar:** That seems you are trying to bridge that gap?

**Amit Raj Sinha:** We are showing this as a substitute to imports and also because we have our network and distribution in customer base across the 47 countries, our interest is to see that we give them one more product to launch on and be able to sell it in the supply chain which has already established. There is another synergy which can come in. The raw material for this product, Croscarmellose Sodium is going to be the wood pulp itself. Wood pulp is our primary raw material and for the cellulose of MCC and it will be the same for the cellulose of Croscarmellose. So that would mean that we will have higher quantity of pulp being purchased that would give us stronger hands in terms of negotiating a better deal of supplies.

**Rajesh Kumar:** Sir, I think you had mentioned in one of the earlier calls regarding the nanocellulose that is being developed in Europe and other developed countries?

**Amit Raj Sinha:** Yes.

**Rajesh Kumar:** So are we working on this product as on date?

**Amit Raj Sinha:** We are working on this product sir, we have done some basic ground work, but what we realize was that even the R&D for this set up is going to be a very expensive thing, so we are trying to look around with certain international players and institutes to see if they have the technology and if you could kind of buying the technology or license the technology we would be able to produce it on a trial basis and then work on seeing if it could be a commercial success for us.

**Rajesh Kumar:** But there were applications where it can be used in India also for this product?

**Amit Raj Sinha:** Yes sir, applications are tremendous. If we go on to the Google, one would see that the application because of its nano size, by its nature, it forms a gel and it becomes a transparent gel and that gel can be still formed into a very thin layer which prevents oxygen to sweep in, so basically wherever there is food packaging, I am just giving an typical example, wherever there is a food packaging which uses plastic cell for oxygen control, no air control, there the nanocellulose sheet could be used which will be very thin and which will prevent oxygen penetration and increasing the shelf life, so that means there could be a way by which we reduce plastic usage in food packaging and bring in this renewable source. This is just one of that. The nanocellulose when it is combined with certain composite can be as strong as steel and as light as aluminium, so there are many applications going to it. If it is calendar, well calendaring is a technology of making it proper spread out of it in a standard form. If it is calendar, well it is stronger than Kevlar. Kevlar is a brand name of DuPont wherein it is used in anything like parachutes or any other kind of format which needs very high strength and very light weight. So I believe sir that this is going to be game changer, may be another 5-7 years down the line and we intent to be prepared for it as and when the technology absorption by the customer is aligned.

**Rajesh Kumar:** So that means you said you are already in discussion, like what is the timeframe we can look for, does it take 3 years, 5 years, for any positive result in this regard?

**Amit Raj Sinha:** Because it is a very longish project Rajesh sir, it will be very difficult to commit on a timeline, but we are doing ground work behind the curtains to see that we have an appropriate partner and subsequently we have an appropriate R&D to be able to manufacture it the way it intends to be manufactured. Once the R&D is in place, then we will work on the commercial viability and what scale it can be a viable project so that the customer start looking at us as an option.

**Rajesh Kumar:** Sir, till the time it happens, so now you are going with this Croscarmellose Sodium product also, so in the next 2-3 years, you have some products already lined up for launch and other things in line?

**Amit Raj Sinha:** Yes sir, that is right, sir and as and when things are firmed up, we will be declaring it out and we will be very happy to answer further questions thereafter.

**Rajesh Kumar:** Sir, first one is, in one of the interviews post listing of our stock, you had mentioned going ahead, the food industry is going to contribute almost 30% sales in FY23, so my question was how this sudden change is possible?

**Amit Raj Sinha:** Sir, we export a reasonable quality of our cellulose-based ingredient to the food industry even now. The percentage is on the lower side, but what we see is that we have gradually started giving in certain food premixes which goes on dietary fiber or as emulsifier and stabilizer in the food industry. So gradually this product range would continue to broaden because of our base product of cellulose. Cellulose by its technical nature is a dietary fiber, so because of this dietary

fiber, it is an additive into anything which needs to be good for health and that makes it a very strong point. So likewise, we can kind of add in other ingredients and we can have a pre-formulated food ingredient which goes into any other food premix. So, on that basis, we had come out that this will be a substantial portion of our revenue going forward.

**Rajesh Kumar:** And you feel that is sustainable also, going ahead?

**Amit Raj Sinha:** Yes, we do feel it is sustainable because I would not want to do anything which is not really sustainable and growable, anything which can have growth in it and it is sustained is what is meaningful, otherwise it is not really the best option.

**Rajesh Kumar:** Sir, regarding the sales contributed by the top 10 customers for the company, you had mentioned that major portion of our sales is done through the distributor channel also?

**Amit Raj Sinha:** Yes.

**Rajesh Kumar:** Is it possible to share us first of all how much of our sales is done through the distributor channel of the overall sales and second is, in the top 10 customers is it possible to know how many of them are there?

**Amit Raj Sinha:** I think CFO might be able to give you a good breakup, but what I can definitely say is that in India which constitutes around 30% of our revenues, primarily all of it is directly to the customers.

**O. S. Reddy:** 30% of the overall sales.

**Amit Raj Sinha:** Yes and in terms of our biggest customer which is our own subsidiary, Sigachi US Inc. that is directly our own company and they are doing the last mile connectivity with the customers in the US and Mexico region, the North American territory. So there again, it is directly through us. There is no distributor involved. In terms of other regions and the other top 4, may be the CFO might be able to give a good breakup.

**O. S. Reddy:** Yes, overall almost 30-35% of top customers are through distributor, balance is our direct customers. Our Sigachi US Inc. also that is US based subsidiary company, only one subsidiary company of Sigachi that contributes around 20% and overall 30% is through agents and 70% of the top 10 customers are direct.

**Rajesh Kumar:** Sir, my last question is, there was a concern which was mentioned in the IPOs at RHP where that anticaking agents may cause degradation of vitamin C in food products, so does this affect the sales of MCC as the anticaking agent in food grade industry?

**Amit Raj Sinha:** No sir, in fact on the food side, if you see our volumes and sales over the last 3-4 years or in fact historically, you would see that there has been an increase spend, so we don't see this as



a challenge, in fact, Saputo Dairy, the largest dairy of New Zealand and Australia, we are their one of the biggest supplier for anticaking agent for their cheese industry and naturally the cheese goes in with many other ingredients where there might be vitamin C and we have not faced any such challenges that technically the ingredient is not suitable for vitamin C. Vitamin C by its very nature is oxidizing in nature and it needs to be encapsulated in its own powder. You know you can't have a naked vitamin, if it is naked, then it degrades, it oxidizes and loses its potency, so it has to be encapsulated, so I believe that any other ingredient coming in would not really be able to impact vitamin C the way it seems to be.

**Moderator:** Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** Sir, I am new to your company, so couple of basic questions to start with, so if we look at the last 5 year of our performance, it is very pleasing to see that on an average, we have grown our business at topline by almost 25%, so if you could just share a bit detail on your journey of these last 5 years, how we have been able to grow this business if you are adding new customers, new geographies or new products, what has led to this phenomenal growth for last 5 years?

**Amit Raj Sinha:** That is a very interesting question and I think I will be happy to answer it. So one of the prime reasons which has led to a substantial increase in our growth in our company has been me, completing my MBA from the ISB and thereafter the seniors and the elders, the earlier generation of the company believing in me and my thoughts and my vision and giving me a free hand to kind of get things going. That was one of the prime reasons that you would see that from FY19 or so, there has been kind of a change in the way we have been operating and the way we kind of have our EBITDA margins. That is one of the prime reasons. The overall pharma and the food market continuously growing has been another significant reason that in a growing market it is much easier to grow and penetrate and capture customers. The third reason has been our deficient to incorporate Sigachi US Inc. and kind of take forward the sales team there in connecting up with various other end customers in the US region. By virtue of doing that what we have established is that we have the last mile connectivity to all the pharma customers or rather majority of the pharma customers in the North America territory and thereby increasing our product portfolio would only give us comfort of servicing our customers, already cemented customers much better. These are the prime reasons and of course there are many other reasons, but these, I would say, are the prime one. I hope I answered your question.

**O. S. Reddy:** To supplement it I will add especially after takeover of the complete control by our present Managing Director, Mr. Amit Raj Sinha with the blessings of our senior management, he has debottlenecked all, wherever in plants, wherever there is a possibility to debottleneck and increase the capacities, he has increased it and thereby we could increase the capacities without adding much CAPEX, small CAPEX added and then they have increased capacities like

anything and that is one parameter. The fixed cost remains almost same and capacity has improved, thereby sales increased and also increased the strength of R&D department, he has concentrated on R&D and then improved the R&D department strength by adding value to our products and also by adopting the pain points of the customers, more aggressively doing R&D activities and thereby added value to the customer, so that we have got repeated orders from the existing customers and also added new customers, either year-on-year that is also one of the factors.

**Yogansh Jeswani:** That is really good to hear sir the kind of input you have shared, that really helped me understand bit more. So just a follow-up on that sir, when we joined till now, what has been the contribution of our business coming in from US market?

**O. S. Reddy:** In US market, the contribution is right now overall sales 20% is there from Sigachi US. In the US region, you mean to say the country wise, 23% from US itself.

**Yogansh Jeswani:** What was it for 3-4 years back?

**O. S. Reddy:** Last year, it was around 16.50% and before that it was 9% and before that it was much lower. It is increasing tremendously. Last FY22, it is 23%, FY21 it is 16.5%, FY20 it was around 9%.

**Yogansh Jeswani:** Sir, if I understand the excipient business correctly, I am not very much aware of the details, but excipient as an end product for pharma is a very small cost and there are several big players like you, DuPont I think is only another big player, so what we have seen is that it is very difficult to break into any new customers because the switching cost is not so high for them and the end product prices are not very high for them, so they don't want to take any risk in terms of changing the products of the vendor and risking the quality and all, so how, do we also face this challenge, if yes, what are we doing, how have we been able to add these new customers, these new territories because in excipient I think it is very difficult to break into a new customer?

**Amit Raj Sinha:** I would say that this is both a challenge and an opportunity, challenge in terms of what you already spoke and opportunity that because the price points are insignificant in the end use, the customer stickiness is very high. So if you have a customer base, you can be rest assured that if the customer is growing, you are bound to be growing. So that is one part. Now, in terms of the challenge, the countering the way we look at the challenge, the pre-formulated excipients are value adding more than what we are doing is kind of one of the best things we are doing. I would indicate you that BASF has come out with its product which is similar to **BARETab**, pre-formulated excipient much later after we have taken it out and much later than we have put it into the market. So that indicates our resilience in terms of bringing out what the market needs. So this is the way we have been countering with, otherwise I do agree that the big players like DuPont or BASF are big, but however, there are certain strengths which lies

with the mid-size player and they can actually turnaround things much faster and quicker based on what the customer needs are.

**Moderator:** Thank you. We have the next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

**Saket Kapoor:** Sir, first of all if you could clarify has the board proposed any dividend payout for this financial year and it is not the key reason for why not being in the dividend list?

**Amit Raj Sinha:** So board has right now not proposed anything. Probably, in the AGM, this would be declared. Right now, there is not such proposal, but historically we have been paying out dividends every year, so that way I believe things should be fair.

**Saket Kapoor:** But just in a sense is that with this result and with things out there, the dividend is also being declared at those time, if you could look at what the factors has been, so please look into the merit of coming with dividend and when the annual accounts are finalized, so that make some sense with investor community also and not at the time of book closure.

**Amit Raj Sinha:** I appreciate your concern and we will definitely look at it. That is a very valid and thoughtful point and we shall look at it.

**Saket Kapoor:** Sir, for the Forex loss part, if you could explain what led to this Forex loss for us and do we have unhedged position, what is the vulnerability regarding the Forex losses and why did this result?

**O. S. Reddy:** Here, almost our imports are completely, we buy raw material from outside Indi and also we export around 75% of our products, there is a natural hedging to that extent and the balance anyway we utilize PCFC, PSFC that time also that will be covered naturally. There will not be much risk against foreign exchange fluctuation. Mostly, we have net receivables only and always there is a positive, historically if we can observe, there is a favorable exchange fluctuation.

**Saket Kapoor:** Sir, we have only exports to the dollar fluctuation?

**O. S. Reddy:** We export, we have dollar surplus and mostly our exports are in dollar terms only.

**Saket Kapoor:** Sir, very small point, firstly if you could explain to us the key challenges that as a company we currently have in our hand and how are we addressing and also sir, the factors which gives you the confidence of growth as you have already told that we will be coming up with some capacity addition one year down the line, but other than that, how are you visualizing things, say 4-5 years down the line?

**Amit Raj Sinha:** Saket sir, in terms of key challenges, I am sure you understand that geopolitical situation wise, in terms of uncertainties, in terms of global supply chain, I see this as the prime key challenges

at this moment. Other than this, the key challenges are not really significant. In terms of your second question for what is that we are looking over 5-year horizon, we are looking to be the market leaders like you can see that we are growing our capacities by more than 60%, so we are looking to be the market leaders, so continue to be the market leaders for this line of product and cellulose as the base and grow our product portfolio. Parallely, we are also looking at other opportunities in terms of food industry and other industry in the pharmaceutical segment. These are on the table and as and when things get firmed up, it would be appropriately declared, sir.

**Saket Kapoor:** But how are you addressing this geopolitical issue sir, at least there are any ways where in you can address this issue or we have to be dependent as if our raw material is totally imported?

**Amit Raj Sinha:** Yes, of course our raw material is totally imported, but for the kind of volumes that we import, we have lot of comfort with our suppliers in terms of longstanding supplies. Additionally, our supplies are from the South Africa, from the North America, from Sweden, and certain parts even from Indonesia. So this kind of staggered supply helps us in balancing out fluctuations if there are any from our suppliers. That is one. The second way of mitigating this is kind of being in deep dialogue with our export customers, so that we are able to balance out these fluctuations of ocean freight and be able to give them prices which are reasonably competitive and which can kind of be sold out to the end customers. So that is one of the reasons that you will see the inventory levels are a bit higher than what they should be, just because we are trying to balance out the outgoing freight and the incoming uncertainties. So that speaks of the increased inventory over the 31st March figure.

**Saket Kapoor:** Just a very small point if I may squeeze in here, sir how should one look at your employee cost other expenses part in the P&L, we find this other expenses component are what constituted and what are the variable factors that affects the other expenses category that is the substantial one and also for the employee cost as a total percentage of sales, we have seen an increase for quarter-on-quarter also and year-on-year also, from year-on-year we have seen from Rs. 4 crores to Rs. 5.5 crores, mainly contributed to the increasing revenue, but how should will these two components be looked into?

**O. S. Reddy:** This employee benefit expenses as a percentage when we see, last year it was 8.86%, this year it was 8.33% only and in absolute terms, it may be a little higher, but as the percentage on revenue, it is lower than previous year and other expenses include the freight cost which is increased in multifold that is why there is an increase in expenses, but successfully we could pass it on to the customers and there is no much impact on that.

**Saket Kapoor:** Sir, didn't get you sir, last point?

**O. S. Reddy:** The other expenses include freight expenses, freight increased multifold because of this COVID and nonavailability of containers and hike in freight prices and all. Because of these reasons,

freight has increased, but we could be able to pass it on to our customers and we could recover it by the way of raising debit notes.

**Moderator:** Thank you. We have the next question from the line of Nagesh Rajanna from NR's Family Office. Please go ahead.

**Nagesh Rajanna:** Very happy to see the way the company has been progressing and also glad to hear the kind of insights which you have personally brought into the system since 2019. Two quick questions, one, you did speak about road map for the next 4 to 5 years, if you could just elaborate a little more in terms of your vision, what are your strategic priorities? That is question number one, question number two is, you also spoke about trying to be a leader, how will that happen, how could Sigachi become the market leader, if you could just articulate these two?

**Amit Raj Sinha:** I think these are very deep questions. I think our outlook and vision over the next 5 years is of course to grow the business to have sustainable profits and to be able to be the leader in whichever segment we operate in. Right now, we are in the pharmaceutical and food primarily, we intent to look at growing our product portfolio within these two segments and also look for opportunities wherever they arise in terms of our strategic priorities, brand building is the number one priority at this moment. The second priority is having a culture of excellence. It could be efficient and effective internal processes demonstrating excellence to customer every day and highly engaged work flow. Innovation has been our third strategic priority, where it could be a product, process or even a service and R&D innovation. Rethinking processes is another strategic objective within the innovation and of course new revenue stream exploration is always there. Our fourth strategic priority is sustainability that is ecological, economic and environmental sustainability. Digital transformation is our fifth strategic priority and we believe without having a base or without having a digital transformation platform, we really cannot be growing sustainably, so whether it is IT infrastructure and IT data intelligence, data security and having a Sigachi one portal for everybody including employees, customers, and suppliers. Economics is our sixth and the last strategic priority that is growth and diversification are EBITDA focused and fund raising for further CAPEX. These are our overall six strategic priorities and believe you me these are the prime work of my job these six strategic priorities, working it out to make into objective and from objectives making into KRA and then having directly responsible individual for that particular activity. I hope I managed to answer your question to an extent.

**Moderator:** Thank you. We have the next question from the line of Ashav Patel from Molecule Ventures. Please go ahead.

**Ashav Patel:** My only question is that we had the strong traction in our core earnings as per one of the outcome of board meeting, we were thinking to set up ethanol plant, so I wanted to get your understanding on those lines, what are our plan, how is that major supplemental to our existing business?

**Amit Raj Sinha:** I will start with the first one, while we were looking at setting up the Croscarmellose plant at Kurnool, we realize that the handover of Kurnool land from APIIC, the AP Industrial Infrastructure Corporation with the company was getting delayed, so parallelly what we had done was we were doing the ground work to have set up another facility in the special economic room in Dahej. That is around 1.5 kilometers from our current unit, so what we have kind of home down to is that it would be better that we shift the CCS plant to Dahej. That is just adjacent to our old unit and for the 25 acres land which has already been allotted, while the process for it continued, we are looking at ethanol as a potential product where we could kind of expand given the kind of focus which is there for the country in terms of having an alternate or having a additive over the crude oil. So this is what we are potentially looking at. We are working on seeing various other factors in terms of compliance, in terms of cost, in terms of revenue and all that ground work has been done, we have appointed a consultant towards this and we are looking deeper into this subject, but I can assure that we are on this job and we are looking at whether this could align our overall growth aspiration and we shall keep you posted on this.

**Moderator:** Thank you. We have the next question from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav:** Sir, what kind of impact can we expect on gross margin in the coming quarters due to inflationary pressures and also if you could talk a little about freight cost what would be as a percentage of sales currently and how that has moved over the past 2 years?

**Amit Raj Sinha:** The gross margin is sustainable and we expect a favorable gross margin in coming years also.

**Keshav:** And on the freight cost, sir?

**Amit Raj Sinha:** Freight cost also it is under control only and there also we will not see any negative impact, whatever the freight cost are there we could be able to pass it on to the customers.

**Keshav:** And sir, could you talk a bit more about how the global MCC industry is structured, so where are our global competitors based, how does the economics behave from place to place, for example the cost of manufacturing, logistics, sourcing, raw material sourcing and all that and are you seeing any sentiment shift from the developed economies to near base these products and produce locally?

**Amit Raj Sinha:** That is a very thoughtful question sir, in terms of overall supply chain dynamics, we are seeing that this MCC industry will continue to be primarily focused out of non-developed countries because this being a cheaper product compared to an API, it would be very challenging to manufacture it in place which is high in cost and with negligible margins there because of high people costs and high facility cost. The fact that we are importing our raw material from US and then exporting it back to the US and still having such margins speaks about the supply chain

sustainable the way it is functioning out. All the units which are running in the EU region or the US region have been set up around 15 years or may be 15-20 years back. There has been no recent set up of the facility in the developed market. The market leader DuPont had set up a facility in one grade of MCC in Thailand around 10 years back. So that indicates that the market leaders are moving out to the developing markets for setting up facility and then exporting it back to the main land, in developed markets. I missed the second part of the question sir, if you could just speak up again.

**Keshav:** Sir, you broadly covered all this, so I had my question answered, but sir, just one last question from me, so ROCs and ROEs of our core business are much higher than IRR of an ethanol product, so what exactly is the thought process behind this? And are there any potential synergy to the current products or are there limited incremental capital allocation avenues in MCC, so why are we venturing in this?

**Amit Raj Sinha:** It is an exploratory part at this moment and we are just checking the ground sir, we are just checking out to see if this could be a viable option for us because raw material sourcing the low grade rice, Kurnool is supposed to be one of the hub of South India in terms of rice, so we are looking to see if this both could balance out and we could come out with something which is balance combination of sales and margins.

**Moderator:** Thank you. We have the next question from the line of Rajesh Kumar from NV Investment. Please go ahead.

**Rajesh Kumar:** Sir, I just wanted to know are there any possibilities for any of our competitors or customers to develop any alternative products or technology which will affect the sales of our product?

**Amit Raj Sinha:** Yes sir, I get that question, for the last approximately, nearly 60 years, Cellulose based excipient has been the prime focus for all the products in terms of inactive ingredients. So we don't see any challenge in terms of any other alternates. Starch was there, starch is already on the lower side because of the way it is produced and lactose is also there. Lactose has been there, but lactose sourcing is a challenge and also lactose intolerance in terms of customers, in terms of patients, lactose is not the most preferred thing and because this is renewable, this is clean, we believe that there can be no alternate at least for the foreseeable future, sir.

**Rajesh Kumar:** That is good to know, sir, my second question is the realization had gone up from Rs. 102 to Rs. 161 in FY22, so my question is how much is it in FY23 and where we can see it in the next question is from the line of 3 or 5 years?

**Amit Raj Sinha:** Realization is a combination of lot of things, sir, which is a product mix, the market conditions, the rupee depreciation value, so among this the only thing in our control is to see that the product mix is more suitable and in terms of product mix, we have a combination of standard grade and special grades. Special grades are value added products which kind of give comfort

to the customer by addressing more than one challenge and there of course price is a bit higher. So when you have higher percentage of export grades coming in and automatically the benefit kind of or the realization gets better. Historically, we have been selling standard grades at around 75% and the balance 25% having special grades and we believe we can continue to be doing this.

**Rajesh Kumar:** So how much was the realization in this year, FY22, 161, so is it expected to go up in the near future?

**Amit Raj Sinha:** Yes sir, we believe that it will be going up, sir.

**Rajesh Kumar:** Sir, the followup of this is, I think the food supplements and cosmetics industry have higher margins, so one is, why do they have higher margins and will it remain like that for years to come?

**Amit Raj Sinha:** That is a very difficult question, sir. In cosmetics, what we have seen is that the volume, the consumption, the quantities are very low, but the margins are phenomenal. It is much better, so we believe that this will continue to be there, though the volumes will be miniscule. In terms of food, I believe that standard ingredients don't really have the best margins, they are just a reasonable margin product, but if you are able to value add by taking in additional ingredient by making in a combination by giving additional product, so that more than couple of challenges of the end customer addressed, we will be able to gain better margins in the food industry as well. Food industry is a very typical market, sir. Nobody comes out with what they use, how they use and whom they use. So trying to break in, it is a very slow process. In the pharma industry, you accuse an obligation to declare, in the food it becomes proprietary, but we believe food is the way to go forward sir, because as the population grows and as the living standards move up, the processed food percentage on everybody's breakfast table is bound to get better and better.

**Moderator:** Thank you. We have the next question from the line of Avinash Nahata from Parami Financial. Please go ahead.

**Avinash Nahata:** My first question relates to the spreads of the business we are in, so as you said wood pulp is our main source of raw material, since you have been there in the business for long I would want to understand what has been the spreads for a standard or a very base grade material output we produce, so if we have to take last 5 to 10 years, because as an investor, as an analyst we need to understand the volatility of the business, so my simple question is how are the spreads in last 5-10 years, what has been the lowest spreads when you convert pulp into your MCC, what has been the highest spreads, what has been the spreads on an average?

**Amit Raj Sinha:** I just want to understand when you say spread what exactly does it mean?



**Avinash Nahata:** So what you pay for your raw material like wood pulp in terms of tonnage or per kg and you convert into your end produce, let us say, a standard grade output, so you are selling it for 150, buying it for 80, what is that spreads high, low on an average?

**Amit Raj Sinha:** So our raw material because it is a naturally sourced product and it is a renewable and a sustainable source, it has been rather steady. We have seen this fluctuate between \$700 per ton going up to around \$900 or sometimes \$950 per ton. This has been the price range in fluctuation. In terms of conversion, we are having an yield of nearly 89 to 90%, so that would indicate that if you take in 100 kilos, you actually come out with 89 kilos of the finished products. So this is the conversion part. In terms of our pricing, we are spending it or we probably would be averaging may be around \$2.4, \$2.5, all combined, a weighted average of every great combined would be averaging around 2.3, 2.4. Did I answer your question, sir?

**Avinash Nahata:** I didn't understand, because raw material you have said \$700 per ton and what is this 2.3, 2.4?

**Amit Raj Sinha:** This is the finished product sale price of the basic grade which doesn't take in any other material other than the pulp that all is consumable.

**Avinash Nahata:** Your total raw material is like Rs. 125 crores a year, so how much wood pulp would be, 50% is total raw material of the sales price?

**O. S. Reddy:** I think I can answer your question sir, in spite of the average selling price 5 years back, it was around 140 or 134 and now it is around 182, average price, it is a blend of all mix of products. When we take the raw material, the freight is around \$650 to around \$950, it is on lower side 650 when we take a spread of 5 years and now when we take the selling price, it is from 134 to 182.

**Avinash Nahata:** So one more question, so we are exporting 75% of our total sales, so we are country which manufactures drugs and have a massive wood processing industry and exported to, so why is domestic sales 25% only?

**O. S. Reddy:** Because we are concentrating on export markets where within the available capacities we are concentrating more on export market because better realizations are there. The balance we are selling it in the domestic market. Going forward, the percentage wise, it may be **higher exports, Anyone** wants to increase the percentage of overall sales to export sales only because there was higher realization.

**Moderator:** Thank you. We have the next question from the line of Varun Sheth who is an Individual Investor. Please go ahead.

**Varun Sheth:** Sir, my question is to two-fold, one, we are primarily a Micro Crystalline Cellulose company and then expanding into Croscarmellose Sodium which is again wood pulp based and cellulose

product, so how do we see our company say, 4-5 years down the line becoming may be more than Rs. 1,000 crores company or whatever in terms of size and in terms of product, are we looking at more cellulose derivative products available like methyl cellulose, ethyl cellulose, etc., and will diversify in that or how do we see because MCC as such market is pretty small, so how do we see ourselves?

**Amit Raj Sinha:** Like I answered in one of the other questions before in this call, we of course are looking for related diversification in cellulose based because the platform is already established, the supply chain for the raw material exist and the connect with the end customers is already in place. So we are looking at that. In parallel to that we are also looking at other core competencies and strengths where we have to be what else could be there and things are underway and there are certain activities going on. As and when things are appropriate, we will definitely kind of break it out. I understand that MCC just as a single product is not really sustainable for us to kind of go beyond Rs. 1,000 crores, very valid, sir.

**Varun Sheth:** So sir, just a followup on that would be how much R&D expenditure we would be looking to spend on a yearly basis if we have to come out with this kind of innovative products, etc., so how do we look at that?

**Amit Raj Sinha:** It may go up to around 3%. Right now, we are around 1.5-2% and.

**Varun Sheth:** Okay, from this year onwards?

**Amit Raj Sinha:** Yes, 3%, it depends upon the opportunity and then the requirement. We wanted to concentrate more on R&D sir going forward, even right now also we are concentrating, but going forward we will increase our concentration on R&D.

**Varun Sheth:** And sir, my second question is on the realizations as you said it is around 1,60,000 per ton basis or 160 per kg and is likely to increase, but if you see there are import data, there are companies like Signet which imports MCC and their realizations or their import prices round about 5,50,000 to 6,50,000 range, so if these products all together different MCCs or we have room to grow there or how do we see ourselves there and Signet being the trader also earn 20 to 22% margin, so if you can highlight somewhat on that piece, sir?

**Amit Raj Sinha:** So Signet I would say was in a very typical position where he had principles who were the world leaders way before the market kind of started maturing and because he had the world leaders in his pocket, he was able to and he was picking up volumes for an Indian market, he was able to squeeze in a good price and sell it out at fantastic margin to India, to Bangladesh, and to certain nations around. This was one of the prime reasons and because he had better margins he was able to squeeze out better expands further adding more principles. In terms of specifically having that purchase price, I would say that would not be a pure MCC. A pure MCC on the world number one and two are usually around 15% to 25% price higher than our current

pricing. There are special grades like we have the BARETab® there are other special grades which are a combination of CMC carboxymethyl cellulose and Micro Crystalline Cellulose and then there are other grades wherein there is silicon dioxide with Micro Crystalline Cellulose, so there are various grades and then they are priced around \$7, \$8, even \$9 per kg. So that actually speaks for the kind of pricing he has on his purchase and maybe he transforms that to the customers in India at whatever good margins he gets and he is the only sole distributor, so there is no other way people have them kind of reach out to him.

**Varun Sheth:** Sir, as a follow-up question, do we see our revenue also reaching from 1,60,000 to 5,00,000 sir as and when we do more products for R&D?

**Amit Raj Sinha:** I don't see it reaching up to 5,00,000 because the product mix what he has and what we have are completely different. He is a trader, so he can trade in anything which is in need and demand for the markets, whereas we are very specific and we are going based on related diversification or cellulose based or places or products where there are synergies coming in. so we don't see our product pricing going up with that level. We have certain grades of special products which are as much if not higher than that price, sir, but their percentage like I indicated earlier is much lower. Our special grade combination is only at 25% against the standard volume percentage of 75%, I mean 75 for the standard grade and 25 for the special grades and the special grades are priced more than 5,00,000-6,00,000 a ton.

**Moderator:** Thank you. We have the next question from the line of Vignesh Iyer who is in Individual Investor. Please go ahead.

**Vignesh Iyer:** I wanted to know in this case you have got value added products as well as your normal products, right, so I just wanted to know for FY21 and FY22, what would be the mix of the sales when it comes to your normal product and value-added product because I wanted to understand your company has grown from Rs. 139 crores sales in 20 to Rs. 193 crores and Rs. 250 crores, so I wanted to understand what is aiding this growth, except for the realization part, what is that mix of value-added product and your other product?

**Amit Raj Sinha:** The mix is actually showing on the realization, sir. For the last 2 years, we have had a combination of approximately 75, 25 and again 75, 25 in terms of our standard grades and co-process grades or the special grades.

**Vignesh Iyer:** So means 25% of value added and your normal product is 75%, right, as I am analyzing it rightly?

**Amit Raj Sinha:** Yes, that is right.

**Vignesh Iyer:** My second question would be, this is your Sodium excipient, you are working on this new product, I just wanted to know what would be the capacity and when would the capacity kick in?

**Amit Raj Sinha:** The capacity is approximately 1800 tons per annum and we are expecting this to be on stream in the first quarter of the next financial year.

**Moderator:** That was the last question. I now hand it over to the management for closing comments. Thank you.

**Amit Raj Sinha:** Thank you all for participating in this earnings concall. I hope we are able to answer your questions satisfactorily and at the same time offer some insight into our business. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations Manager at Valorem Advisors and thank you very much and stay safe and stay healthy.

**Moderator:** Thank you, sir. On behalf of Researchbytes that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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