



SIGACHI INDUSTRIES LIMITED

CIN: U24110TG1989PLC009497

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



To,

Date: 27-01-2024

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

Sub: Transcript of the Earnings Call for Q3 FY 2023-24 Results

Unit: Sigachi Industries Limited

In continuation to our letter dated 20-01-2024, audio recording of Q3 FY24 earnings call, please find attached herewith the transcript of the earnings call held on Friday, January 19, 2024, 4:00 PM IST. The same is also available on the company's website at www.sigachi.com .

This is for the information and record of the exchanges.

Thanking You,

Yours faithfully

For Sigachi Industries Limited

Shreya Mitra

Company Secretary and Compliance Officer

Registered Office:

#229/1 & 90, 2nd Floor, Kalyan's Tulsiram Chambers, Madinaguda, Hyderabad-49, Telangana State, India.

Email: info@sigachi.com, Customer Service +91 40 40114874 - 76



“Sigachi Industries Limited
Q3 FY’24 Earnings Conference Call”
January 19, 2024



**MANAGEMENT: MR. AMIT RAJ SINHA -- MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – SIGACHI INDUSTRIES
LIMITED**

**MR. O. SUBBARAMI REDDY – CHIEF FINANCIAL
OFFICER – SIGACHI INDUSTRIES LIMITED**

**MS. SHREYA MITRA -- COMPANY SECRETARY –
SIGACHI INDUSTRIES LIMITED**

**MODERATOR: MR. RANVIR SINGH -- NUVAMA WEALTH
MANAGEMENT**

Moderator: Ladies and gentlemen, good day and welcome to Sigachi Industries Limited Q3 FY24 Earnings Conference Call hosted by Nuvama Wealth Management. As a reminder, all participants' line 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. Ranvir Singh from Nuvama Wealth Management. Thank you and over to you Mr. Ranvir.

Ranvir Singh: Yes, thank you. Thank you Chorus team. So this call is being hosted by Nuvama Wealth and co-hosted by Go India Advisors. I am Ranvir Singh from Nuvama Wealth Research Team. I welcome you all.

So we have with us the senior management team of Sigachi Industries: Mr. Amit Raj Sinha is the Managing Director and CEO, Mr. O. Subbarami Reddy CFO and Ms. Shreya Mitra, is the Company Secretary.

I now hand over the call to the management team for his opening remarks and before the Q&A session starts, over to you sir.

Amit Raj Sinha: Thank you Mr. Ranvir Singh. Good afternoon ladies and gentlemen. We are pleased to welcome you all to our Q3 and 9 months FY24 earnings con-call. In the interest of some of our people who are new to the company, let me first start by giving a brief overview of the company followed by strategic updates and performance highlights. Our investor presentation would be shortly uploaded. I understand that there is some technical glitch. We are in the process of uploading and I believe in the next couple of minutes, we should have that done.

Sigachi Industries stands as a global leader in the production of microcrystalline cellulose. This refined wood pulp is a chemically inert substance with widespread application in food, pharma, cosmetics and polymer composite industries.

MCC being a diluent with self-binding properties is highly favoured as a directly compressible binder due to its dry binding characteristics. Its unique chemical and physical properties, set it apart from other excipients and its compatibility with most APIs, the Active Pharmaceutical Ingredients, is a significant advantage.

With excellent absorption capacities, a broad particle size profile, superior compressibility leading to faster disintegration, MCC has earned its position as the most widely used excipient in the pharma industry globally. Sigachi manufactures around 60 different grades of MCC ranging from 15 micron to 250 micron having varied application in all the pharma, food, nutra and the cosmetic industry.

Sigachi is a significant player in this promising market, presently serving over 52 countries with a global presence. In-line with our diversification strategy and a focus on expanding our global

footprint, we have incorporated Sigachi Arabia, a joint venture with Saudi National Projects Investment Limited. This strategic move includes a plan for manufacturing facility at Riyadh within the next three years, initially catering to the local and the GCC markets.

The company has been experiencing strong growth with a top-line CAGR of 25% over the last five years. As part of our strategic plan to scale up operations, we are currently in the process of expanding our MCC capacity by more than 50%, increasing from approximately 14,000 metric tons per annum to more than 21,000 metric tons per annum. This expansion is expected to be effective from Feb, 2024.

In the last quarter, we also acquired 80% stake in Trimax BioSciences, a leading API manufacturing company based out of Raichur. This, in addition to our existing operations and capabilities, gives us the complete ecosystem of the pharma industry. Additionally, we have initiated establishment of our new CCS manufacturing facility at Dahej SEZ, a significant step in strengthening our manufacturing infrastructure and augmentation of our production capacities.

As a testament of our effective management, we have been appointed by Gujarat Alkalis & Chemicals Limited, Grasim Industries, ONGC Petro Additions and Lord's Chloro Alkali, thereby significantly expanding our operations and management business segment. Witnessing steady growth, we have achieved a top-line of INR25.96 crores in nine months FY24 and we anticipate this positive trend to continue with an expected revenue of approximately INR35 crores in FY24.

On the operational front, in the nine months FY24, our overall revenue experienced robust year-on-year growth of 27.5%, expanding from INR235 crores to INR299 crores. Sale of the products increased by 27% in the nine months FY24 to INR269 crores versus INR212 crores last fiscal.

The quantity of MCC demonstrated a notable increase over the year-on-year growth of 12.04% increasing from 9,850 metric ton to 11,036 metric ton. As part of our commitment to continuous improvement, the company is dedicated to enhancing its R&D capabilities and implementing cost-effective manufacturing processes, reinforcing our position as a manufacturer of choice with the highest quality standards.

Our strategic focus on high margin yielding product mix and efficient manufacturing processes coupled with effective inventory management, gives us a competitive edge and is instrumental in sustaining our leadership position in the country.

I now request our CFO, Mr. O.S. Reddy, to give you a brief on the financial performance. Over to you, Mr. Reddy.

O.Subbarami Reddy:

Thank you, sir. Good afternoon, everyone. I am delighted to share that Q3, FY24 marked a robust performance for us. In Q3, FY24, our operating income showed a substantial year-on-year increase of 61% reaching INR111 crores. EBITDA witnessed a 61.4% year-on-year growth totalling INR22.6 crores with a margin of 20.3%.

Net profit saw a 65.3% year-on-year rise amounting to INR16 crores and a PAT margin of 14.6%. Coming to 9M FY24, operating revenue for the period increased by 28.4% year-on-year reaching INR295 crores. EBITDA showed a 29.7% year-on-year growth totalling INR60.3 crores with a margin of 20.45%.

Net profit amounted INR42 crores with a PAT margin of 14.24%. We would like to draw attention to the fact that our return on capital employed has seen a declining trend. This is primarily due to our on-going capacity expansion plans and the increased capital work in progress.

The capital work in progress as on FY23 was INR35 crores and for 9 months FY24 CWIP is INR79.13 crores. However, we are optimistic that the favourable impact of these initiatives will materialise in the upcoming years.

As we progress with our strategic expansion initiatives, we are confident that unlocking economies of scale and enhancing operational efficiencies will be key aspects of our future success. These efforts align with our commitment to sustainable growth and delivering long-term value to our stakeholders.

Thank you. Now, we can open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhruv Mukesh Bajaj from Smart Sync Investment Advisory. Please go ahead. Mr. Dhruv, please go ahead.

Dhruv Mukesh Bajaj: Yes, sir. So, my first question that I have is, in terms of growth drivers, specifically in terms of business segment areas, can you provide insights into key factors contributing to the expected growth?

Amit Raj Sinha: Yes, Mr. Bajaj, one of the prime growth drivers is our focus on the excipient industry overall in the pharmaceutical space and in the excipient industry catering to our core product of microcrystalline cellulose. As the pharma industry grows, so does the solid oral dosage forms grow. Solid oral dosage form is primarily the tablet and the capsules. And just about all the formulations of solid oral dosage forms, that is tablets and capsules, need MCC for their formulations. And this is what is propelling our growth in the MCC and the pharma space.

Dhruv Mukesh Bajaj: Okay. The next question that I have is, how will Sigachi's entry into the market as a CCS manufacturer impact the existing dose?

Amit Raj Sinha: I'm sorry, I didn't get your question. Could you just repeat it again?

Dhruv Mukesh Bajaj: How will Sigachi's entry into the market as a CCS manufacturer impact the existing players?

Amit Raj Sinha: Impact the existing players?

Dhruv Mukesh Bajaj: Yes, sir.

- Amit Raj Sinha:** You mean the customers or the competition?
- Dhruv Mukesh Bajaj:** The competition.
- Amit Raj Sinha:** Okay. Fine. So what happens is, CCS becomes very complementary to our current core product of MCC. Because MCC is a binder and it binds the whole tablet together. Whereas, CCS becomes a disintegrant where it breaks up the tablet at the right point within the body to release the drug. So, every tablet which is taken in also needs to have in CCS.
- So, it becomes very complementary and technically we are giving a basket, a range of all the ingredients which go into making a tablet to our customers. And that's a very big value-add which goes in. And not everybody who makes MCC or is a cellulose player also makes CCS because that's a completely different chemistry.
- Dhruv Mukesh Bajaj:** Okay, sir. So, five years down the line, what's our target revenue mix from our current revenue lines and our API segment, considering we did a major investment in Trimax of INR100 cores for 80% stake?
- Amit Raj Sinha:** Five years down the line, I think we believe we will continue to be primarily a pharmaceutical company. We believe 70% or more of our revenues would continue to come in from the excipient and the API space. The balance 30% would be from the food and nutrition and operations and management.
- Dhruv Mukesh Bajaj:** Okay, sir. I have two more questions. The next question that I have is, your company was expected to commission MCC plant expansion in Q3. So, have you achieved that expansion? And if yes, what is the revenue potential?
- Amit Raj Sinha:** Yes. The capacity expansion is already underway. We are having commissioning trials running, the wet and the dry trials. After that, we will have the material trials commenced. In terms of potential, I would just like to indicate that, you know, from a 14,000 tons capacity, we would be increasing it to 21,000 tons capacity. So, you can gauge the revenue potential which comes in just by having basic maths in place.
- Dhruv Mukesh Bajaj:** Okay. My last question is, what is your views on equity dilution considering you have wasted a round of funding within two to three years of IPO?
- Amit Raj Sinha:** Views in terms of equity dilution, I am not sure what is it that you would want to hear, but my focus is the growth of the company. So, whichever way it comes in, it is important that there is a growth coming in and all the stakeholders, whether it is the shareholders or the people, I mean the customers or the employees, everybody kind of gains and has potential to grow within the company and outside the company. So that's the prime focus at this moment.
- Dhruv Mukesh Bajaj:** Okay, sir. Thank you.
- Amit Raj Sinha:** Thank you, Mr. Bajaj.

- Moderator:** Thank you. We have our next question from the line of Abhay Jain from HEM Securities. Please go ahead.
- Abhay Jain:** Hi, sir. Thank you for providing the opportunity. My question is, are you sticking to the guidance of giving 25% of the utilization of additional capex in Q4 FY'24?
- Amit Raj Sinha:** So, in my last call, I had indicated that 25% in the first quarter would be a very tough target and I had indicated it would be 10%. Subsequently, it will be 25%. So, I believe in the Q4, we should be having an additional capacity of 10%, I mean additional capacity from the new capex which is put in.
- And in the Q1 of the next financial year, we should be comfortably touching at 25%. You see, because one part of the month is already lost in terms of commissioning and equipment trials. It is partly commissioned, but we are not really in a position to deliver the sellable goods. So, I believe 10% would be a fair mix to take in.
- Abhay Jain:** Just a humble request. Can you also provide us the percentage utilization of additional capex in the upcoming quarters? Say, suppose for the Q1 FY'25 and Q2 FY'25, if you have the numbers with you.
- Amit Raj Sinha:** So, in terms of additional capex, we have the CCS project where we were looking to have the environmental clearance by December. I see that there is a delay and the committee has not yet cleared the file. We are expecting that the file gets cleared by mid-Feb. So, in case that happens, by March, we should be able to deploy our capex into the CCS project.
- So, over the next 18 months, we should be able to completely commission and kick-start the commercials from that particular CCS project. So, I believe over the next four to five quarters, we should be able to deploy all this capex of CCS.
- Abhay Jain:** Thank you, sir.
- Amit Raj Sinha:** Thank you very much, Mr. Jain.
- Moderator:** Thank you, sir. We have our next question from the line of Vilina Jain from Perpetuity Ventures. Please go ahead.
- Vilina Jain:** So, I have three questions. First is, beyond India, which specific export markets are you targeting for CCS sales? What strategies do you have in place to secure the competitive pricing and market share in your chosen export markets? And lastly, how will you balance meeting domestic demand with your export focus? Thank you.
- Amit Raj Sinha:** If you can just repeat the last one, domestic demand?
- Vilina Jain:** So, with your focus on export markets, how will you balance meeting the domestic demand?

Amit Raj Sinha: Okay. So, in terms of meeting the global demand and the domestic demand, it's a very fine balance in terms of catering to our old customers and seeing that we are able to cater to their needy demands and also catering to our high potential, high realization sales across the globe in the regulated market. I'm sure all of us are aware that in India, in the domestic market, the realizations are not as good as what we get in the regulated markets.

So, historically, we have been having two-thirds of our revenue coming in from the export and one-third from the domestic. We believe, even with the advent of CCS as a product coming in, we would continue to have this kind of sales in terms of domestic and export.

In terms of pricing strategy, I would say it's a very good question. Pricing strategy when you are launching a new product is always competition-driven. So, when you launch a product, you have to beat competition and you have to price it so that the customer has a reason to buying and you have a leg in the door.

And once you are kind of there, you can show your strength in terms of quality, in terms of service and gradually have a better share of the wallet from the customer. I believe this is the overall CCS sales strategy as well because our network of distribution and end customers across the 55 to 60 different countries is already established and in many regions and countries we have cemented relations with our customers. So, giving them an additional product from our portfolio would only kind of complement and add more strength to our relation.

I hope I answered your three questions, Ms. Jain.

Vilina Jain: Yes. I have one more question.

Amit Raj Sinha: Sure.

Vilina Jain: With the acquisition of Trimax, is this the first step towards forward integration?

Amit Raj Sinha: No, I wouldn't call it a forward integration, ma'am, because the Trimax is an API manufacturing facility. We are a major [inaudible 19:34] both our customer profiles are the same. Trimax earlier also was selling to formulators, the guys who make the tablet and the capsules and any other liquid syrups or other cosmetics and we were also selling our excipients or so to say the inactive ingredients to the formulators. So our customer profile continues to be the same. So it's not really a forward integration.

Vilina Jain: Got it. Thank you.

Amit Raj Sinha: Thank you, Ms. Jain.

Moderator: Thank you. We have our next question from the line of Muthukumar from Fidelity Venture. Please go ahead.

- Muthukumar:** Good evening. Thanks for the opportunity. Yes, I have one question. What is the capex that you have spent for financial year 23 and capex plan for financial year 24 and 25 financial year? Thank you.
- O.Subbarami Reddy:** Yes, thank you Mr. Muthukumar. This capex for 24 almost we have spent around for 24 it will be around INR100 crores and FY25 also it is around INR100 crores would be there.
- Muthukumar:** Okay. And financial year 23?
- O.Subbarami Reddy:** 23 it is in CWIP INR35 crores is there some capitalized or some INR20 crores are there around INR50 crores INR50-INR55 crores.
- Muthukumar:** Thank you. All the best.
- Moderator:** Thank you. We have our next question from the line of Mr. Devansh Shah from Iwealth management. Please go ahead.
- Devansh Shah:** Hello, sir. Am I audible?
- Moderator:** Yes, Mr. Devansh. Please go ahead.
- Devansh Shah:** Yes. So just wanted to know the realization for the MCC, sir?
- O.Subbarami Reddy:** Yes. MCC thank you, Mr. Devansh. MCC realization FY23 it was around 208 per kg. And FY24 also it is not there is almost it remains same but quantity there is an improvement is there. Quantity there is a good improvement is there in price.
- Devansh Shah:** Right now we are at the capacity utilization of?
- O.Subbarami Reddy:** Utilization of almost 95%.
- Devansh Shah:** Okay. And so just wanted to know the growth drivers behind the sales growth of 61%, sir.
- O.Subbarami Reddy:** Yes. That is because this quantity increase is there one thing and also there is a contribution from our API little contributed for this growth and also our subsidiaries Sigachi US also contributed. And [O&M] also it is there is a good growth rate is there in O&M
- If you remember FY22 our O&M revenue is INR13.29 crores and FY23 it was 26.59. This year will be reaching around INR35 crores. Yes, that is a good growth is there from the other segments and this MCC also after expansion our good revenues we are expecting. Even margins also we are focusing on...
- Devansh Shah:** What kind of growth can we expect?
- O.Subbarami Reddy:** The growth almost not less than we hope it is 30% around 30%.

- Devansh Shah:** Got it sir. Just one last question. How much if you could tell me the quantity for this quarter for MCC?
- O.Subbarami Reddy:** MCC this quarter for nine months it is 11,036 metric tons. Whereas in the corresponding previous year it was 9,851 metric tons.
- Devansh Shah:** Got it sir. Thank you so much.
- O.Subbarami Reddy:** One small announcement sir. The results have been uploaded.
- Moderator:** We will have a next question from the line of Shriman Marayana an Individual Investor. Please go ahead.
- Shriman Marayana:** I would like to ask two questions. First question is what is the market share in the Indian industry and globally what is your position. And the second thing is you have capex of about 200 odd crores. What is the funding plan for these things.
- Amit Raj Sinha:** You are not completely audible. Market share in ...
- Shriman Marayana:** No, your market share within India.
- Amit Raj Sinha:** In which segment or product are we talking about sir?
- Shriman Marayana:** Your best product is CCS.
- Amit Raj Sinha:** CCS is the product we are yet to commence our production. MCC is our core product.
- Shriman Marayana:** What is your market share within India?
- Amit Raj Sinha:** So market share in India, I would say at this moment, market share percentage is a very tough call to take. There are a reasonable level of imports coming in for the regulated market from where it gets exported to the finished products get exported. In terms of installed capacity in India, we are the number one player in terms of installed capacity.
- Our current volume is the highest by any player within India. And once we have the additional capacity coming in touching nearly 2,000 tons per month, that would cement our position as the number one player in India. Market share percentages, we don't really have a data which one can call authentic to be able to tell it on an earnings call. Second questions sir.
- Shriman Marayana:** Who are your competitors?
- O.Subbarami Reddy:** We have a player by the name of JRS Pharma, and Gujarat Microwax private Limited based out of Gujarat.
- Shriman Marayana:** Regarding the INR200 crores of capex happening now in current financial year and the next financial year what are the sources of funds for that?

- O.Subbarami Reddy:** Yes, sir. Thank you Mr. Shriman Marayana. This capex have issued share warrants for the tune of 286.45 crores. And that is already the objects for that is INR160 crores towards acquisition and expansion of API facility that is the Trimax Bio Sciences at Raichur.
- And INR50 crores for the Dahej and Jhagadia expansion part of the expansion we'll use. And we'll use it. And augmentation of Hyderabad unit INR22 crores we will use it and there is a working capital and general corporate purpose is there. Mostly the funds are earmarked from this share warrants and also the CCS already certain around 33 crores it is available and further we have the plans of maybe through retained earnings or some further capital or debt will rise. That we will take it.
- Shriman Marayana:** To whom these share warrants were issued?
- O.Subbarami Reddy:** Share warrants it is issued to the group of investors. Even promoters also contributed, promoters and the management.
- Shriman Marayana:** What are the conversion terms? What are the share premium?
- O.Subbarami Reddy:** That is, share warrants, that is standard terms are there 18 months from the date of issue, but all the investors, as per the requirement of the company, they will infuse into the company.
- Shriman Marayana:** No, but is there any agreed conversion terms for that?
- O.Subbarami Reddy:** There is no agreed, but as per the requirement of the company, the investors, they infuse into the company.
- Shriman Marayana:** Okay, but now what is the present capital as of 31st December then?
- O.Subbarami Reddy:** In 31st December, INR30.7 crores is the capital, INR31.7 crores.
- Shriman Marayana:** Okay now suppose these warrants are converted, now what would be the likely capital equity capital...
- O.Subbarami Reddy:** Yes, on fully diluted basis that would be around INR41.7.
- Shriman Marayana:** 41.7 mean a crores my rest of the thing will go as a share premium or how it will?
- O.Subbarami Reddy:** Yes, share premium. This, equity share, number of equity shares. And we have issued at 261, that was before conversion, means after conversion that would be 26.1.
- Shriman Marayana:** But now, I think now, it is, how it compares with the present market price now, suppose the premium now what you are going to collect?
- O.Subbarami Reddy:** Yes, that is already at the time of issuance of share warrant itself, the premium also as for the SEBI guidelines, it was calculated and issued.
- Shriman Marayana:** What was the, what is the per share premium now that you will be getting?

- O.Subbarami Reddy:** Premium, we'll get that -- 251 was the share premium.
- Shriman Marayana:** 251, compared to the, no, that is very high now, that compared to the present market price of say around 75. Is it correct now, that are you sure now that you are getting 251?
- O.Subbarami Reddy:** Yes, Yes, already it was issued sometime back, and as for the SEBI calculation, that is the way any company issue the share warrants.
- Shriman Marayana:** What is the face value, INR1?
- O.Subbarami Reddy:** INR10, that time, that time INR10. INR251 was the share premium, and INR10 was the face value.
- Shriman Marayana:** And then your dilution is going to be very advantageous to the new shareholders, then when they borrow it.
- O.Subbarami Reddy:** No, no, no, no.
- Shriman Marayana:** INR1 share is quoting, INR1 share is quoting at INR75, isn't it, correct?
- Amit Raj Sinha:** Sir, Mr. Shriman, I would request we keep our discussions to the operational review. I think that's more meaningful. Anything to do with the norms, I would say that we are all following the SEBI guidelines, and we are all complying that. These debates are not really fruitful in the overall interest of all the members who have joined for the earnings call.
- Shriman Marayana:** Okay, but it has got an impact on the companies?
- O.Subbarami Reddy:** It is positive, it is beneficial to the company only, positive impact on the even shareholders also, that is good.
- Shriman Marayana:** Okay, now how to get the additional information, suppose if it is required, if you are not interested in sharing now?
- O.Subbarami Reddy:** No, no, it's not the question of not interested, but the interest of the other larger group of the...
- Shriman Marayana:** No, that's what I'm getting now, how to get the information now, how we will share the information if you are not interested in sharing that information right now?
- O.Subbarami Reddy:** Yes, okay, just you please go on, just quickly we can conclude in the interest of the other members.
- Shriman Marayana:** No, my question is not for the INR10...
- O.Subbarami Reddy:** One more, your question is -- your question is the management company is not, we are not, management is not diluting the share capital, they're holding, they're also, even there is no offer for sales at the time of IPO or even now also, it is positive to the company.

- Shriman Marayana:** Okay, otherwise you tell me now the documents you filed as a reference, I can go through that.
- O.Subbarami Reddy:** Yes, Yes, already everything is available, even later on if you want, we can provide it also. It's already submitted to the exchanges. Every complete information it is available, sir.
- Shriman Marayana:** Okay, fine.
- O.Subbarami Reddy:** Please, Yes. And one more thing in the interest of the members, already the results were uploaded, that is for your kind information.
- Moderator:** Thank you, sir. The next question is from the line of Dilip Kumar, an Investor. Please go ahead, sir.
- Dilip Kumar:** Yes, thank you very much for giving me opportunity to ask you questions about this company. Though I am little new to this company, I have been just tracking this company in the last couple of months, so I would just restrict my questions to very few questions and I would not really like to just waste time with some basic questions about the company asking. So I had gone through your presentation, previous one, and even now the current presentation which is before me.
- Most of the things what I can understand, I have the information. Few things I do not have information, I do not know whether it would be a right forum for you or MD to share that information. If not, possibly I can write separately later on if possible.
- The first question is that, see this, your product is an excellent product, excellent product, which goes to the pharma company as a binding and for some kind of reaction, which does not change the property of all other things. A very good product definitely. But the kind of sales you have, which is INR75 crores, INR80 crores per quarter, this amount as a input cost to the whole pharma sector seems to be quite -- not very significant kind of amount.
- So my query is that, since there are very large number of pharma companies, the total turnover of the pharma is very huge and the input cost is very large, that means it is some percentage of that. So I could feel that there is a large amount of import is there, which you can clarify in number one question, my question is that.
- Number two is that, if this product used primarily for your pharma product, then I can see there's a huge opportunity and growth for your company, because this is one of the, some important ingredient goes to the pharma again. So if you could kindly just tell me that, how much is your moat in terms of other fitting into this product? These are the very two questions I have, just to ask if you could kindly.
- Amit Raj Sinha:** Thanks for your question, Mr. Dilip Kumar, appreciate you being very frank in terms of your knowledge of the company, we'll be very happy to answer them. In terms of others getting into this product line, I would say pharmaceutical industry is a very closed industry in terms of accepting or taking in a new vendor. In terms of technology, I would say that it is a very difficult, precise depolymerization which happens with the cellulose chemistry here.

So it's not really very easy for somebody to set up an industry, of course, it's very capital intensive. And once you finally have the product, it takes nearly 1.5 to 2 years for any good player to be able to put it into a formulation, check the stability of the formulation, and then have the formulation registered into any other markets. That answers your second question. In terms of the first question, in...

Dilip Kumar: Regarding import?

Amit Raj Sinha: Import, yes. So, there are a reasonable, I mean, there is a reasonable quantity of this product being imported from the world leaders, precisely the world number one and world number two. And some of the regulated, some of the big pharmaceutical formulators and their customers, they are importing it for the finished formulation, which go back to the regulated market.

So, if I'm a big pharma company and I have a product registered in the US, which uses an excipient, which uses an MCC from a player in the US, I have to import as per the formula which I have submitted to the US authorities. I can't change the formula, or even if I have to change, there's a lot of paperwork, there's a lot of cost involved. And we have seen that the customer stickiness with these products are very high because these are high volume, very low in value. So, in the API...

Dilip Kumar: Yes, I understand that point, but then I would have been a little more curious to understand, your customers, are they the top pharma companies like Sun, Lupine, all the big things, or the below that?

Amit Raj Sinha: No, no, no, of course. If we are the number one in India, we ought to be having all the bigwigs of the pharma company. We also have the bigwigs of the global level companies. We have GSK, AstraZeneca, Sanofi, Servier, Pfizer. All these, Dr. Reddy's, Cipla, Lupine. So, I mean, naturally, all of them require these products and they want assurance of supply, assurance of quality and regulatory compliance so that they don't default.

Dilip Kumar: So it depends, like one company having thousand types of tablet, maybe 10 tablets they use your product, maybe another tablet they use for their import kind of things like that. So that is how I think probably it is done, right?

Amit Raj Sinha: Yes, that's right, that's right.

Dilip Kumar: Thank you very much, thank you very much for...

Amit Raj Sinha: Thank you, Mr. Dilip Kumar.

Moderator: Thank you, sir. Next question is from the line of Shivaji Mehta, an Individual Investor. Please go ahead, sir.

Shivaji Mehta: Hi, thank you for the opportunity. I had a question regarding the MCC product. If you could give us some color regarding how is the demand supply situation globally, and are there some new capacities that are coming up globally which could probably impact the realization going ahead?

- Amit Raj Sinha:** Thank you, Mr. Mehta. In terms of our demand supply situation, we don't see an abrupt change, either in terms of increase in demand or a decrease in supply, because the pharmaceutical market and the pharmaceutical industry is humongously big and quite stable. We had seen a big change during the COVID times, but from the last two years, it has been quite stable.
- MCC per se, we have market reports indicating that the global increase would continue to be between 6% to 7%. In the Asian region, the global increase of consumption of this market, or the size of this, would be around 8%. So this is the overall increase in demand, and I believe supply also continues to be kind of trailing these volumes and these demand.
- Shivaji Mehta:** Right, so basically, the realization is expected to be very stable going ahead. Yes. So my next question is regarding the asset turns. If you could just give some colour regarding the new products that are coming up in CCS and also in MCC, the new capacity that is coming up, how will the asset turns really pan out if you could probably give us granular regarding CCS and MCC, or if you could give us an overall company level asset turn that you expect going ahead?
- Amit Raj Sinha:** CFO, would you like to just answer this?
- O.Subbarami Reddy:** Yes. Thank you, Mr. Shivaji Mehta. This asset turn, earlier, it is asset turnover ratio may be around 2%, 2.5% is where gradually it will increase to more than three times. And because now it is under the expansion stage and then we are deploying capital, and then all the capacities comes into operational, it would be around more than three we can maintain.
- Shivaji Mehta:** And just one final question regarding margin, how do you see that trajectory? Because you're getting into CCS and also as your asset turn get better, your operating leverage will kick in. So how do you see that margin trajectory really going ahead?
- O.Subbarami Reddy:** In the CCS, it gives better margins than our existing MCC. And margins also, it is tend to improve further, even EBITDA levels slightly. Slightly, it's a -- it will be improved, yes.
- Amit Raj Sinha:** Yes, Mr. Mehta, I would also like to add here that we have taken over a Trimax Bio Sciences. They have a USFDA approval for intermediates. However, we are working to see how we have API approval also coming in from the EU region, European Union and certain Latin American countries. So initially in the API segment, our margins would not be as great. But once we have the regulatory approval coming in, I believe our market should be positive of 20%, 22%.
- Shivaji Mehta:** 20%, 22% for the whole company, going ahead is what you're saying at EBITDA level?
- Amit Raj Sinha:** No, at this moment, while I spoke, it was primarily for the API, but I believe that we should be positive of 20% for the whole company as a whole and only get better as we move ahead in terms of contributions coming in more from the API.
- Shivaji Mehta:** Okay, great. Thank you so much and wishing you all the very best.
- Amit Raj Sinha:** Thank you so much, Mr. Mehta.

O.Subbarami Reddy: Thank you.

Moderator: Thank you, sir. We have our next question from the line of Sidhant Jain, an individual investor. Please go ahead.

Sidhant Jain: Yes, thank you for the opportunity. So as you mentioned that you are the largest manufacturer of MCC in India. However, I can see in the presentation that you have major market locations in India, US, Australia, and Sweden. So as far as US, Australia, and Sweden goes, what risks do you pose by the local MCC manufacturers in there and do you see a risk of customer getting swayed by the other manufacturers?

Amit Raj Sinha: So the regions you spoke was US, Sweden, and Australia.

Sidhant Jain: Yes, because the majority of the customers lie there.

Amit Raj Sinha: Okay, what I would like to indicate is that we don't have any MCC manufacturer based out of Australia. Australia imports all their MCC from suppliers, either in the US or in the Asia region. In Sweden, we don't have any. However, we have a couple of manufacturers in the EU region. In the US, we have a couple of manufacturers. So risk in terms of supplies coming in from local, yes, I would agree that there are risks.

However, there are inherent advantages from our customers who are looking for stable supplies at reasonable pricing than the US manufacturers. And to top it, when you have relations spanning to two decades, you know that until there is something which really falls apart, the customer is not going to go away because you have been servicing them at a certain level of comfort.

They're having good payment terms and commercial terms between both the sites. There is not much reason that the customer would want to look at somebody who is a local supplier.

Sidhant Jain: Okay, thank you for the answer. And just a follow-up question. So the pharma industry being a very running on the trust basis and the terms being very complex. So do you see any new customer, even the big ones being on boarded in this next quarter or so?

Amit Raj Sinha: So, Mr. Jain, I mean, new customers, that exercise is always part of our game plan, always part of our sales and marketing strategy, business development strategy. We have a twofold strategy in terms of customer acquisition. I mean, in terms of growth and customer acquisition. The first one is that whoever are our current customers, how do we have a bigger share of their wallet? How do we kind of have products which align with all their needs? That's number one.

Number two, to work out to see how do we have more customers coming into us and taking Sigachi as an alternate vendor and gradually building up a strength to have a bigger share of their wallet. So with these two strategies in place, we always keep balancing out and gradually the C and the D grade customers, the low end customers where the payment terms, the pricings are not as good or there is geopolitical situation coming in.

We gradually keep purging out these set of customers and keep having better customers so that effectively over a couple of years, our customer profile only betters.

Sidhant Jain: Okay, got it. And I have one more question. So that is on the stock split that took place. So I am an investor since the IPO. I got allotted in that. And then I read the financials and found it to be very good. Any particular reason, like what was the motivation behind the stock split? Because you being a very small cap company, it didn't like seem to me that you should be doing that at this point since the stock would have been cheaper now and the number of investors would increase and the liquidity would definitely increase and the pledging amount has increased as well for the promoters in between?

Amit Raj Sinha: So my understanding of your question is that you didn't find the stock split the best, I mean, the best move forward.

Sidhant Jain: Yes, and like more probably the pledging part, I didn't get why was that done?

O.Subbarami Reddy: Yes, Sidhant Jain, this is all the advantage of splitting used work and the pledging was done for further investment to raise money by the promoter, that's all. And then infused it to the company only. There is no other.

Sidhant Jain: Okay. Thank you, yes, that's it.

Amit Raj Sinha: Thank you Mr. Jain.

Moderator: We have our next question from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: Hi, am I audible?

Moderator: Yes, sir, please go ahead.

Raaj: All right. So, sir, you have done a capex of INR100 crores for FY'24 and INR100 crores for FY'25. So you are saying on INR200 crores of capex, you will be able to do a max sale of INR600 crores?

O.Subbarami Reddy: Already existing, yes, Mr. Raaj, yes, that's all. Or you wanted to ask any further questions? Can I proceed to answer your question?

Raaj: Yes.

O.Subbarami Reddy: Yes. This is actually, this is 100-100, 200, and three times you have taken capital, this thing, asset turnover. And based on that, you are asking, or what is your expectation? What is your complete question? Can you please?

Raaj: To the earlier participant, you said you would be able to do a 3X of asset turn. So on the basis of that, I'm calculating.

- O.Subbarami Reddy:** Yes, this is only investment in FY'24 and FY'25. These fruits, immediately it will not come because if we invest in FY'25, if we start investing and then it will take capitalization and then even the validations will take and the existing investment already we have done. That is, that gives, plus in addition to this, this expansion capacities will give further revenue.
- Raaj:** Understood. And sir, how much time will it take for us to achieve INR600 crores of sales in future?
- O.Subbarami Reddy:** Can you please repeat which is the amount I didn't get?
- Raaj:** How much time it will take for us to achieve this peak sale of INR600 crores in future?
- O.Subbarami Reddy:** INR600 crores -- right now, see already INR300, last year, we had achieved INR302 operational income is there. This year around INR300 already achieved in a period of nine months itself. Last year, 12 months revenue, we had achieved in nine months itself and almost the fourth quarter also comes in. INR600 crores turnover is not far away. It is close, but Yes, that is a futuristic statement. We hope it will be achieved very soon.
- Amit Raj Sinha:** What I could add in, Mr. Raj, is that, you know, historically, we have data to show that we have been growing at a 25% CAGR. This year, I believe it would be a bit more than that. And for FY '24-'25, because of our capex kicking in, because of API coming in, I believe we should be able to touch a comfortable 30% growth.
- So just doing basic maths, you know, I believe in the next financial year, I mean, '25-'26 midway by the financial year or somewhere towards the closure of the financial year, INR600 crores should be surpassed.
- Raaj:** Understood. And in FY '25, will you be able to increase your EBITDA margin?
- Amit Raj Sinha:** Yes, that's a very tough question. We are working overtime to see that our API vertical contributes positive of 20%. At this moment, because the products, what we see have potential markets, they don't contribute positive of 20%.
- But we are doing the groundwork to see that the CEP is applied and there are certain NBISA approvals which are done. And that should give us a headway into the regulated markets. And with that, we should be positive of 20%. So over a two-year period, you should see us being much ahead of the basic 20% at which we have always been.
- Raaj:** Understood. So expansion in EBITDA would only come from the API, API company which we have acquired, right?
- Amit Raj Sinha:** No, expansion in EBITDA will also come in from the capex which turns around. From the end of Feb, we should be having sales of our expanded capacity of MCC as well. So it should also come in from that.
- Raaj:** Understood, sir. All right. Thank you so much.

- Amit Raj Sinha:** Thank you, Mr. Raaj.
- Moderator:** Thank you, sir. We have our next question from the line of Mr. Ranvir Singh from Nuvama Wealth Management. Please go ahead, sir.
- Ranvir Singh:** Thank you for taking my question. And quickly, three points I actually wanted to clarify. One is that we mentioned that total production has been 11,036 metric tons and the total capacity is 14,000. So that comes to around 78% of capacity utilization. So I'm calculating something. My calculation is right or we are missing something?
- Amit Raj Sinha:** So production calculations are right. Possibly the 14,000 metric ton what we speak of is incorrect. Because we have been at nearly 90% capacity utilization.
- Ranvir Singh:** Okay, okay. And secondly, I think we spoke to one of similar player your competitors some time back. And I got to know that wood prices, wood pulp prices have come down significantly. So have you also witnessed this trend?
- Amit Raj Sinha:** Actually, actually, actually, Mr. Ranvir Singh, we have seen the opposite. The pulp prices seem to be going up from the last couple of months. We have been stocking up. CFO has been increasing his working capital structure to see that we kind of stock in more and more of pulp because the pulp prices are shooting northwards. So I don't believe that the pulp prices are actually decreasing. The pulp prices are in fact actually going up.
- Ranvir Singh:** So what is, if you could give any indicative for number, what kind of currently the world prices is prevailing and what's this last year, even if this is similar. So just that will give some idea because the realization we have?
- Amit Raj Sinha:** Mr. Ranvir, you know, pulp prices vary on pulp mill to pulp mill. It varies on the wood species to wood species. It varies on the pulp quality, the brightness, so purity levels. So there's a lot of functions which come in in terms of pulp prices.
- The quality which I buy, maybe my competitor might not buy, he might buy a cheaper version of it. So it's very difficult to have an apple to apple comparison to see as to if my pulp prices are going to be so and so, what is the pulp price going to be for somebody else?
- But overall, one thing is there, that for whichever way the inherent industry has been or whichever way the geopolitical situations have been in the Middle East, the pulp prices have seen a reasonable increase. And we are doing all that it takes to see that we pass on the price increase percentage to our customers because everybody is aware that there is a change.
- Ranvir Singh:** Okay, fine. And the last one that the acquisition we did for API. So in this quarter also some contribution, how much contribution is from that API business?
- Amit Raj Sinha:** We believe it should be the same value as what we have had in the third quarter. So somewhere around similar value, sir.

- Ranvir Singh:** Okay, but this is the integration is complete. There is nothing pending on that acquisition side.
- Amit Raj Sinha:** No, no, integration is complete. However, certain SOPs what is followed, certain HRMS systems, the Human Resource Management Systems that are followed in Sigachi, that would take time to go in because they have a different formula for overtime. They have a different formula for compensatory of, they have a different formula for everything that because people processes would take time.
- We don't really want to rush into that because everybody is at a work to change. We will take time, but on the product part, everything is aligned. On the SAP part, everything is aligned.
- Ranvir Singh:** So for FY '24, that full year would be consolidated from this API business?
- O.Subbarami Reddy:** Yes, that's right, consolidated.
- Ranvir Singh:** Okay, and similarly, we had that O&M services with Gujarat Alkalies and that ONGC See, that contribution from that partnership is also there in this quarter or what status is there?
- O.Subbarami Reddy:** Yes, yes, every quarter, that is a continuous projects going on and then continuously we get revenues month on month.
- Ranvir Singh:** Okay, fine. I think time constraint also, it's all from my side. Thank you.
- Moderator:** Thank you, sir. Due to time constraint, that was the last question of today's conference. I would now like to hand the conference over to Mr. Amit Raj Sinha for closing comments.
- Amit Raj Sinha:** Thank you. Thank you all participants for being part of this earnings con-call. I hope we have answered your questions satisfactorily and at the same time offer insight into our business. If you have any further questions or would want to know more about the company, please get in touch with our Investor Relation Managers at GoIndia Advisors. Thank you and have a wonderful day.
- Moderator:** On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us and you may now disconnect your lines.