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Galaxy Surfactants Ltd.

November 19, 2024

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Ref.: Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015.

Dear Sir/Madam,

Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we are enclosing transcript of Earnings Conference Call for Q2 & H1 of FY 2024-25.

This is for your information and records.

Yours faithfully,
For **Galaxy Surfactants Limited**

NIRANJAN ARUN KETKAR Digitally signed by NIRANJAN ARUN KETKAR Date: 2024.11.19 16:56:45 +05'30'

Niranjan Ketkar
Company Secretary

Encl: as above

"Galaxy Surfactants Limited Q2 & H1 FY '25 Earnings Conference Call"

November 13, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th November 2024 will prevail."

MANAGEMENT: **MR. K. NATARAJAN – MANAGING DIRECTOR**
MR. VAIJANATH KULKARNI –EXECUTIVE DIRECTOR & CHIEF OPERATING OFFICER
MR. ABHIJIT DAMLE – CHIEF FINANCIAL OFFICER
SGA – INVESTOR RELATIONS ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to the Galaxy Surfactants Limited Q2 and H1 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 this conference, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. K. Natarajan – Managing Director. Thank you, and over to you, sir.

K. Natarajan: Thank you, Rahul. Very good morning, ladies and gentlemen. Once again, welcome to our Quarterly Earnings Call.

At the outset, I take this opportunity to thank all Galaxites for instituting a stable quarter despite the headwinds that we had. While compared to Q1, the company did clock sequential volume growth, it is important to understand the business environment influencing it.

Let me start with the supply side:

While supply-led volatility has continued to pose challenges with varying intensities across quarters, the sudden rise in fatty alcohol prices combined with poor conditions and unavailability of containers did disturb momentum in this quarter. No improvement also was seen with regard to the elongated supply chain on account of the escalating geopolitical scenario. To summarize, while the supply-side situation has significantly improved compared to '22 or '23, the inflationary effect of the same H2 was going ahead for H2 FY 2025.

Moving on to the demand side:

Starting with India, the last two quarters, including the current one, have seen flat volume growth, while supply-side challenges did disturb momentum, underlying demand has slowed. This is mainly due to slowing demand for premium, home and personal care, and slower than expected rural recovery. The sudden and significant rise in fatty alcohol prices has added to the uncertainty. We see the slowdown continuing for the next two quarters. While this is not a structural slowdown, for volume momentum to pick up in FY 2026, household as well as government spending needs to improve.

Moving on to the other big markets for us, Africa, Middle East and Turkey:

While demand has shown signs of revival, the supply-side challenges have prevented us from fully capitalizing on the same. Steps have been taken in this quarter to ensure H2 FY 2025 sees us moving back to the 6% to 8% band in our Africa, Middle East and Turkey volumes. The rest of the world has been a bright spot for us for the past four quarters, while this quarter two saw a strong double-digit growth, signs of revival in premium specialty was the biggest positive. With inflation easing, household spending improving, and economies, especially EU stabilizing, H2 FY 2025 should see further momentum. While volume growth may taper off due to the base effect, as commented in our previous calls, pick-up in the premium specialty should aid in the EBITDA per metric tonne in H2.

Coming to specific numbers for H1:

Volume growth stood at 6.3%, while we retain our volume growth guidance of 6% to 8%, and are also working towards ensuring we end in the upper band. EBITDA per metric tonne stood at Rs. 20,097 per metric tonne, while it is below our guided band, we retain our guidance of Rs. 20,500 to Rs. 21,500 per metric tonne, and uptick in the premium specialty should enable improvement in H2, as we have been communicating in our earlier calls as well. India and AMET have been flat, mainly on account of a slowdown in underlying demand.

As far as India is concerned and supply-led delays in AMET. While for India, the delayed growth should see around 1% to 2% for the full year, in the case of AMET, H2 should see visible growth, with full-year growth being around 4% to 5%. The rest of the world has seen 26% growth for H1 driven by massive specialties, while H2 should see some moderation in volume growth, with pickup in premium specialties and bases effectscoming in. Overall, we see the rest of the world ending in mid-teens volume growth for the year. While the performance segment registered volume growth of 5.8%, especially on the back of the strong growth registered in the manufacturing segment saw volume growth of 7.2%.

To conclude, while demand and supply-led uncertainties continue to pose challenges at different points, we strongly believe, unless inflation makes a strong comeback, gradually we see a structural pickup in demand. It may not happen across regions simultaneously, but there are visible signs of strong demand revival. This bodes well for us in the medium term. And the performance in the last two quarters also underscores the robustness of our business model and our geographical spread, because if some of the regions do see some headwinds, we have other regions where we are able to capitalize on the momentum that we have and achieve our numbers in the guided range. As always, we are leaving nothing to chance and remain fully committed to capitalizing on the same.

Thank you, ladies and gentlemen.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Sir, my first question is on to the Indian market. Sir, I believe six months back we were quite confident that the Indian market would continue to grow. And I understand sir, with the recent commentaries by the FMCG players, there seems to be some structural impact on the demand side, especially on to the urban side. Any sort of color sir you can give, for how much time this market would remain impacted? And are there any signs of uptick you are witnessing for the second half?

K. Natarajan: So, if you see here, the Indian market actually sequentially improved, quarter-on-quarter. Compared to last quarter, quarter one, quarter two, volumes improved by about 3%. So, it does tell us that typically your quarter two of the financial year is always a good quarter as far as India is concerned because of the festive demand. This time it has been higher, but not as high as what it was in the previous years. When we talk to our customers, the commentaries that we read off our customers' after their Q2 results, all of them are pointing towards a rural demand that is reviving, but not to the extent that it would compensate for the sort of demand challenges they are seeing in the urban demand side.

And all of them have indicated that it will take about two to three quarters for things to improve. And they are working towards ensuring that they take the right price calls. Because one of the things that they have also said in the calls is that the inflation coming back in terms of commodity prices is posing a new challenge, and they need to see how they are able to take calibrated price increases without impinging on the very nascent demand revival that is happening. So, we need to wait and watch, and then see as to how things are panning out as far as the customers are concerned.

Aditya Khetan: Sir, my second question is on to the AMET market. Sir, earlier we were guiding that this market has touched the near bottom, and that there would be some double-digit growth in sight. Sir, for the first half I think the volume has been almost flattish, but the rest of the world market has grown by roughly around 20s type of the volume growth. Sir, which are these markets which are growing in big speed? And why is the AMET market not performing?

K. Natarajan: See, AMET market, as I said, AMET market, the unfortunate situation has been that the demand suddenly was coming back after all the economies went through their own issues grappling with inflation and currency devaluation. But then as the demand was coming back, the supply side got significantly impacted because of the Red Sea blockade that happened. So, in fact, the supply chain into Egypt got elevated to almost 30 days. We are filing more orders, but things have started improving only from, probably 15 days into the current quarter. So, I think that this quarter should show some better numbers for AMET, and we should see a positive impact of the growth that is coming there. But yes, we do not want to have any further escalation in the supply chain challenges because of any escalation that may happen in the geopolitical scenario.

Aditya Khetan: And sir, which are these other markets performing in 20s kind of volume growth, mid-20s?

K. Natarajan: Yes, it's coming across Americas, North America, you also have Europe getting better, and Latin America as well. These are the three major which I need to talk about.

Aditya Khetan: So, sir one more question if I can squeeze in. Sir, on the raw material prices of lauryl alcohol, sir we are standing at almost a two-year high in terms of the lauryl alcohol prices. I think these sorts of prices were last seen in 2022, somewhere around $1,900.

K. Natarajan: Correct.

Aditya Khetan: So, sir, how confident are you with this steep rise in raw material price crisis, we can maintain our EBITDA per tonne, considering the demand is faltering into the Indian market and AMET is also not performing well. Is there any risk to that EBITDA per tonne guidance which we had given earlier?

K. Natarajan: No, we do not see any risk in the EBITDA per tonne guidance because we did say that the product mix that we have and the geography mix that we have actually gives me the confidence in terms of retaining the guidance. The risk to these numbers can only be any huge escalation in the geopolitical situation leading to significantly problematic supply chain situation. The prices going up is fine, but when you do not want to see a situation where it becomes so volatile that your price moving up and down, up and down, because that's more of a risk. So, we do see that the price that has gone up also needs to be settling at a stable level rather than you having significant price movements at short frequencies, that can be a big problem. So, this particular way that the prices have gone up is also something that no one in the commodity market even anticipated. We are still trying to understand what are the reasons. We only pray that you do not have this getting corrected significantly in a very short time. So, that can pose challenges in terms of the way our customers then would get a little bit jittery in terms of the way that they need to tie up their volumes.

Aditya Khetan: But we can comfortably pass on these higher raw material prices in the quarter, right?

K. Natarajan: Obviously, because everyone knows it's not that we are the only person impacted. Everyone is impacted with these increasing commodity prices and feedstock prices. So, there is no issue in terms of passing on. That's not an issue at all.

Moderator: Thank you. The next question comes from Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question, again, delving into the EBITDA per metric tonne. So, first half we had done closer to Rs. 20,000 and we still stick to the guidance of Rs. 20,500 to Rs. 21,000. Given that, on a lower side, we will have to do an average of, say, Rs. 21,000 for the next couple of quarters, and again, the raw material price inflation is also there. So, what gives us confidence that we will be able to have better EBITDA per metric tonne in the second half than what we reported in first half? Thank you, sir.

K. Natarajan: Certainly. If you have to look at, if I have to only be guided by what is happening externally, then everything can be looked very pessimistic. But what gives us the confidence is in terms of the way we are able to see our team preparing itself, how we are managing the risk positions as far as raw materials are concerned, and how well the team is geared and committed to make a difference, and see how we are able to end the year within the guided range with regard to both volume and

EBITDA per metric tonne, that's very important. Because if you look at it, everything seems to be externally with a lot of challenges, but it's also important that the quality of the team that I have gives me the confidence that we should be able to end this year on a positive note.

Rohit Nagraj: Sir, and for Q2, if you can just give a Y-o-Y volume growth across the three geographies, and on performance and specialty sector for Q2 on a year-on-year basis?

K. Natarajan: I think our total volumes grew by about 5%, and out of that our performance surfactants grew by about 6%, and specialty grew by about 2.5%.

Rohit Nagraj: And a similar number for India, AMET, and ROW?

K. Natarajan: India was flat. AMET was minus 5%, and ROW was plus 27%.

Rohit Nagraj: This is for the quarter?

K. Natarajan: Yes.

Rohit Nagraj: Fair enough. Just squeezing in the last one. In terms of the supply chain challenges, have those challenges now become stable? And those, I mean, incremental costs, have we completely embedded while we are giving the pricing to our customers? Or will that come in coming quarter and probably that will also give some kind of boost to the EBITDA per metric tonne?

K. Natarajan: No, no, the supply side challenges, as I did say during my opening remarks is that they are still continuing, we expected that things were improving. So, the good part is that they are not regressing as compared to what it was. So, they are probably at the same stage as what it was in the quarter one. But the intensity seems to be reducing. The freight rates are correcting lower, but nothing significant. So, but that also we have to wait for this quarter in terms of seeing how the freight rates are going to pan out in terms of getting back to the earlier levels in 2022.

So, we now need to be there, but we do not see any significant challenge in terms of passing on the freight rate increases or whatever. The team is prepared in terms of handling what current challenges we have and into the next two quarters. But if the challenges get intensified or the new challenges coming up because of any issues on the geopolitical side, then yes, that's a different subject that we may have to talk about later. But if this current situation continues, the team is fully geared.

Moderator: Thank you. The next question comes from Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Sir, just one question. Can you speak a little bit about the market development efforts in terms of new markets as well as any new products that you want to share, which would be, let's say, a big volume or value driver in the next two, three years?

K. Natarajan: Yes. So, what we see is that in terms of our, I think Europe and Americas, including Latin America, will be something that we are preparing ourselves to have a good amount of focus and growth there. That is the reason why we have actually incorporated subsidiaries in Europe and in Mexico. So, that is essentially to prepare ourselves in terms of the business development agenda that we have for these locations. Because we have not been present in a very significant way, we have been more in terms of trying to manage those two distributors, and through supplies from Egypt and India. So, that is going to be something which is going to be a focused market for us in the coming years, and we are preparing for it. With regard to new products, as I said, in terms of premium specialties -- Sorry, yes.

Prashant Poddar: Sir, just a follow-up on that. So, when you say Latin America and Europe, so can you help us understand the potential of these markets vis-a-vis, let's say, an AMET market that you have?

K. Natarajan: So, potential is huge because we are just scratching the surface there. In AMET if you see, we are a local player there, and the sort of product categories that we work on there is essentially what we need to be looking to the local supply chain. Whereas if we look at what product categories we are focusing on for Egypt, for Latin America and Europe, it is more in terms of how do you focus on specialties, there will also be some performance surfactants, but it will be majorly led by our specialty ingredients portfolio. So, the market is not something very different from what it is in AMET.

Prashant Poddar: Specialty as well as the --

K. Natarajan: Majorly the focus will be specialties, but yes, we will also have the performance surfactants as part of the basket, but our product focus will be specialty ingredients.

Prashant Poddar: And on the products, sir?

K. Natarajan: So, the products, yes, it will be essentially on any new product that we are looking at, we have had our mild surfactants, non-toxic preservatives, and there are some emollients and esters that we are working on in the pipeline which we will be launching shortly, which will enable us to participate more in the leave-on skincare range. So, that is something that the team is preparing well. So we will be launching those products in the coming quarters.

Prashant Poddar: Sir, I mean, with the ESG now not at the forefront of things that are being spoken, have you seen any softening of efforts from your, let's say, FMCG partners in terms of introducing more sophisticated, more environment-friendly products?

K. Natarajan: See, one is that, the environmental products, green, natural, okay, those continue, and they continue to be niche. I think if the external environment was conducive, probably the rate of growth would have been much better. But the focus continues, okay, by our customers. But yes, they are probably waiting and watching whether they need to introduce more categories, more SKUs into that, okay, since given that the demand scenario is a little bit tepid. But the focus continues, the products continue to be run by customers, so the intensity has not reduced. But then, yes, to that amount of effort that has been put in, the growth could have been much better but for the way the external situation is panning out.

Prashant Poddar: And I have one more question on the India market. So, you traditionally discussed that the new companies give you a lot of value as well while the volumes might be relatively smaller. And the larger companies they give you volumes, the mid-sized companies are the ones which are tracking behind both of these companies. So, multinationals were doing fine, new startups were doing much, much better, and the guys which are between them were generally getting squeezed is what we understood in the last five years of discussing with you and some other companies as well. Can you help us understand the market environment today, while we have spoken about India being soft in general? And there was a question earlier about the demand conditions, and I understand you have come to know the derivative of the demand that your customers see, anything that you can share? Any insights you can share?

K. Natarajan: Yes, if you see, generally all the categories of segment of the customers, be it global multinationals and specifically in India, or you look at the Indian regional majors or the tier 3 customers, all of them, okay, have been not seeing a good volume growth. If you see the commentaries of all of them, this has been very typical of what has happened in the last two quarters. The direct-to-consumer segment which we had a lot of players coming in and launching of new products, I think that also we have seen that they are also having to bear the brunt of this demand environment getting weaker. So, you do find that they are also looking at inventory in the pipeline. We also see that they are launching some schemes to get inventory flushed out. So, we are able to see this across segments. So, it is not that any segment has been spared of this demand environment being tepid.

Prashant Poddar: Just one more explanation. So, you talked about AMET as well, can you give us some insight into your relative competitiveness versus the local players? As you said, you are as good as a local players, but there was some competition in between where you had lost to lower-value competition.

K. Natarajan: So, that is what we had said was that our customers, because Egypt is a majorly home care market, Africa, Middle East, Turkey. In Egypt, one of the major customers, global multinationals lost share to local players because of the highly inflationary situation. So, that situation, because even today, Egypt after having a 100% depreciation, interest rates of 28%, 30%, is still settling down. The currency now has been made free-floating. The foreign currency availability has improved. But yes, the inflationary situation continues. So, that situation has not changed significantly for the better.

Prashant Poddar: But it is tracking in line now?

K. Natarajan: Yes, right. Typically, whenever this situation happens, it takes about a year to 18 months for things to come back on track. And we are seeing a momentum towards things improving, yes.

Moderator: Thank you. The next question comes from Prasad Vadnere from HDFC Securities. Please go ahead.

Prasad Vadnere: Sir, you have mentioned in a previous comment that the EBITDA per kg will be primarily driven by specialty care going ahead in H2, and you also mentioned that the ROW volume was primarily driven by the masstige specialty care. So, anything you could guide upon premium specialty care regions which will be primary driver going ahead?

K. Natarajan: So, premium specialties are driven majorly by Europe and North America. Okay? So, the reason why we are saying because we are seeing that the products in pipeline are getting built and customers are engaging pretty well. So, that gives you confidence that things will start panning out better. At the same time, last year, I said that premium specialties actually got impacted because Europe and Americas were grappling with significant inflation and increased interest rates. I am saying that now since interest rates are being reduced and inflation getting better, we are seeing that there is a good improvement in the way the products in pipeline are getting built for the premium specialties, majorly Europe and Americas.

Moderator: Thank you. The next question comes from Nirav from Anvil Corporation. Please go ahead.

Nirav Jimudia: Sir, I have two questions. So, one on the rest of the world market, like if you can just help us understand this sort of volume growth what we have clocked in H1. So, if you can just bifurcate in terms of the contribution of this volume growth coming from new products, new customers, newer applications, or the existing customers taking higher volumes from us and because of which we have clocked that sort of volume growth?

K. Natarajan: So, I cannot answer everything in the sort of granularity that you want, okay?

Nirav Jimudia: Yes.

K. Natarajan: It's suffice to say that as I said, Europe, America and Latin America have been the major growth drivers as far as rest of the world is concerned., Essentially in Europe and America, it has been majorly through your specialty ingredients and whereas if you look at Latin America, it has been majorly through on the performance surfactants.

Nirav Jimudia: So, let's say currently if we see in terms of our overall volumes in the rest of the world market, how much would be the share of specialty in the overall volume mix?

K. Natarajan: So, rest of the world if you look at it, you can say that I am just trying to mitigate, because I do not have these numbers with me, but --

Nirav Jimudia: Just on a ballpark number if you can just help. Because I just wanted to understand like what was the base last year in terms of the overall volumes of specialty and how much it is current because now what we have been guiding is that --

K. Natarajan: It will be upwards of 50%.

Nirav Jimudia: And similar was the figure last year also?

K. Natarajan: Yes, I do not have it with me but yes, I do not see any reason why it will not be in the similar zone.

Nirav Jimudia: And sir, secondly, you mentioned that we have been opening offices in Europe and Mexico.

K. Natarajan: Not offices, subsidiaries.

Nirav Jimudia: Subsidiaries, sorry. My apologies. So, what I wanted to understand is like the main logic for us is to compete based on the freight cost which probably the domestic players would have had advantage there, and because of which we have been now setting up the subsidiaries and most probably the warehouses and the storage facilities there. This would help us to compete with the local players despite of the fact that the volumes may not be going up in the same proportion what we have seen in India. Like India has been a growing market but those markets are mostly saturated. So, probably we may be taking the market share from the existing players in order to grow our volumes by setting up the subsidiaries there.

K. Natarajan: So it's like this, a subsidiary that is being set up is to underscore the strategic importance that locations have in our strategy for the future, okay, the business strategy that we have. So, I think if you really need to be looking at those locations significantly in terms of business growth because it is a given fact that we are not a bigger player in these geographies as far as our volumes are concerned. We did a good job, but not good enough in terms of being significant there. So, setting up a subsidiary is only to, as part of our go-to-market strategy, how do we convince our customers that I am looking at this region in a big way and enabling them to look at me for bigger projects. Correct? So, this is the reason why we are doing it and that's why anyone could do it, not only me. So, this is the rationale, okay?

Nirav Jimudia: Sir, second question is, a few months back there was an article about HUL cutting the consumption of palm oil to an extent of 25% to be used in the soaps. So, would it affect it anyway in terms of our volumes to HUL, or if you can say that how much of our product goes into HUL in terms of their soap usage? Some understanding on the same would be helpful.

K. Natarajan: Normally, palm oil derivatives are used into normal, regular soaps, and we have no participation in terms of our ingredients getting into regular soaps. We are only into the premium soap category where this is not, palm oil is not the major usage there. So, it is not going to have any impact.

Moderator: Thank you. The next question comes from Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, fatty alcohol prices during the quarter have jumped significantly and you also mentioned, if I am not wrong, that they are likely to remain high for the next couple of quarters. What has changed in terms of the dynamics and why such sudden spurt in the prices, if you can just give a broader perspective? Thank you.

K. Natarajan: Yes, so Rohit, let me correct, I didn't say that it will remain high for the next two quarters. I only said that, I only hope that even if the price is high, it remains stable. We do not want volatility, price going up and down, up and down, with very increased frequency, because that impacts, okay, customer confidence in terms of doing high ups. So, that is first. Second is, I do not have a crystal ball in front of me in terms of what's going to be the future.

With regard to past, what is the reason that is causing this? We have spoken to multiple players in the oleochemical segment. I think it is being attributed to lower production, lower inventory, yield being lower, okay? But then not everything fits in, but only fact remains that the price has gone up. And the way this prices has gone up, it has not gone up in a very, very gradual way. It has gone up in spurts, which essentially is not a good thing to happen. The reasons are essentially more on the supply side. The demand side is not what is causing the price going up. I think it's more in terms of the supply side not being as conducive. That's what the players in the segment tell us.

Rohit Nagraj: And second, in terms of the specialty care products, I mean, generally, if you can give us the idea how the contribution from the new set of products, including the mild surfactants, has changed over the last maybe two or three years. Just to get a perspective, if there is a continuous rise in EBITDA per metric tonne, this also could be one of the factors to add to it.

K. Natarajan: So, what we will say is that I think this thing in terms of the way that we are approaching the business development of these categories in a very focused way, very clear in terms of what product, what priority markets, and the way we are resourcing the specialty ingredients organization, I can tell you that obviously the reason we are doing all this is because we do see a huge potential and we also see a good amount of growth happening and that will continue. I would not be able to share the sort of numbers specifically that you are asking. That's not something that we reveal.

Rohit Nagraj: But just directionally, the contribution is growing every single year, right? I mean, our new product development perspective, or the focus on mild surfactants, more sustainable products.

K. Natarajan: Yes, obviously it is growing, and with the sort of efforts we are putting in, we are very clear that given the opportunity available in the market, it should be something that grows in a very significantly superior way in the coming years.

Moderator: Thank you. The next question comes from Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Sir, if I look at the lauryl alcohol prices, they have gone up by about 36% Y-o-Y. Are you able to pass on the entire jump in raw material or will there be pass on in third quarter of FY '25?

K. Natarajan: So, the question is, you are very rightly said, the entire jump, so the way it jumps, so your ability to jump in terms of price increases is not something that you can do. But then, I will only say that our ability to pass on, given the way it has significantly gone up, is certainly much better. It is no way that we can absorb these sort of increases into our this thing. But there can be timing differences, but that will not be significant.

Nilesh Ghuge: So, if prices remain elevated, you will subsequently, in a subsequent quarter, you will pass on?

K. Natarajan: Yes. The bigger risk isnot only for me, but for even my co-players is that, if you have significant corrections happening downward for the prices, then you have an exposure, and that is where our risk management framework gives us the confidence that even if the prices correct significantly downwards, we have the ability to manage it.

Nilesh Ghuge: Yes. And sir, if I look at your revenue contribution coming from the local and niche player, if I compare first half of FY '25 with FY '24, so it has gone up to 39% compared to 34% in FY '24. So, is the company taking focus or shifting focus to local and niche player, or is it just happening because of the, maybe, spurt in demand coming from the local and niche player? Or is there a structural change of the focus of the management to supply more to local and niche player?

K. Natarajan: It's not that. It's it essentially, again, underscores the superiority of the way the business model that we have in terms of how we are well entrenched with all segment of customers. So, what if you see today in the market is, you do see that you have more B2C brands coming, more quick commerce channels getting better in terms of the way that many volumes, a good amount of volumes are flowing to them, although the base is small. So, what happens is that you have some of the smaller customers coming in the niche players who are able to push certain things through your quick commerce or e-commerce channels. And the way that we are integrated with all of them, it gives us opportunity to be able to participate with them in the growth that they are at.

There is no structural change that is happening, okay? One thing that even you would know is that people are trying to access more through the quick commerce channels. But for us that doesn't matter because what we do is we serve all the customers, and if there is some amount of increase change that happens in terms of the material going more to the quick commerce channel, okay, it's good for us because we are well entrenched with all the categories of customers.

Nilesh Ghuge: So, how easy or difficult it is to pass on raw material cost to local and niche players compared to MNCs? Because earlier in our conversation, you always mentioned that for MNCs it takes some time but for a local or niche player, because there is a spot buying also, so you can pass on easily to local and niche players. So, any comment on that?

K. Natarajan: So, it's not a question of easily passing on or difficult to pass on, it's a question of, see, when you are going to be having such steep increases in prices, okay, of 30% and 40% in one quarter, the issue is not in terms of going to the customer and saying, I need a price increase of 30%. The important thing is, how well you are able to keep them informed, how well you inform them about what do you see as the things in the coming months, give them a good rationale as to why this has gone up, what do you see in terms of you sustaining, how do you enable them to take a decision to buy. The smaller aspect you say that we need to give a price increase of 30%, okay, but if you approach it that way, then your customer is going to lose confidence and ability to be able to look at things in terms of aiding their business. Finally, we need to make the customer win in the marketplace, correct?

So, how well we are able to give a rationale, support them with information, okay, as to why things are happening, what do we see in the coming three months, whether they should go long or go short, okay? So, that if you look at it, that's a difficult job. Just sending a price increase communication of saying the price has gone up by 30% is an easy job. But we always think it's a difficult task. And that ensures that we are able to, in a very effective and elegant way, pass on a very fair increase of what we need to pass on as far as the nominal cost increases are concerned.

Moderator: Thank you. The next question comes from Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Yes. Sir, I wanted to understand that in the India revenue, could you just quantify the percentage broadly of the traditional FMCG channel, the modern trade, and online aggregators as one cohort, the likes of the D-Marts, Reliances, the Big Baskets and the newer age D2C brands, what is the approximate revenue breakup of these three segments, and which is the segment that is growing the fastest for you?

K. Natarajan: See, one thing is Aejas, I will not be able, because we look at customers, now, the customer then, they're mix in terms of how much through modern trade, how much through your quick commerce or what we do in D2C, that, I will not be able to quantify that. What we do is that we know that we have a Tier 1 which is global multinationals, Tier 2 is the regional majors, and Tier 3 are all the local players, okay? So, basis of that if you see, D2C, our thing is like overall, we are at about, if you look at H1, 50% was the Tier 1 customers, the balance was Tier 2 and Tier 3 customers.

Aejas Lakhani: So, let me rephrase my question with a slightly more nuanced approach. Could you tell me that your percentage of India sales that was going to D2C brands, irrespective of where they sold, how has that been trending?

K. Natarajan: Yes, correct. So, that I can tell you. So, that is something that it grew well and I did say, as part of the response to the earlier question, that even they are now finding in the last two quarters certain challenges in terms of the way their pipeline is not moving well. So, all of them are looking at how do they now start adjusting to the new normal and they are coming up with some schemes and all that to get the inventory out of the system.

They also are now grappling with the increased prices that are happening. So, they are all redefining things as to what they need to do. But the sort of intensity that we see in terms of newer and new brands coming, newer and new D2C players coming in, they are launching a new product. We do see that it is pretty healthy, and our innovation team is doing a good job in terms of engaging with that. So, we see that this is all temporary stuff. But this particular focus of the direct-to-consumer clients increasing is going to be there.

Aejas Lakhani: Is it possible to quantify that, say, two years back what was the percentage revenue of these brands to India sales versus the same for FY '25, your estimate?

K. Natarajan: If you look at, the percentage is small, that may not give you any great difference, because finally even today all the D2C brands are a very small fraction of the overall market. But if you look at last two to three years, if you were to look at two, three years back where we were in terms of the business with them and where we are today, I think I would say it has gone up by about 30% to 50% what we sell, what is the volume we do with that, which tells you in terms of the intensity of what work we do, and what is the sort of action that is happening as well, that is the D2C brands.

Aejas Lakhani: So, basically you are saying wallet share with them has significantly improved and increased.

K. Natarajan: Yes. Correct.

Aejas Lakhani: And so secondly, I have heard you through the call, I am just trying to contextualize this better, that there is a situation where the RM has increased, where inherently freight cost is higher and it is hurting us, as reflected in the OPEX number. There is demand slowdown in India, demand is hopefully receding a little bit, coming back in the AMET region. ROW is doing at least from the destocking era, it is in the phase of restocking. If I were to sort of look at all these players in aggregate, how do we get the sense that we will be able to improve our EBITDA per kg in the second half?

K. Natarajan: So, that's what I said, see, raw material prices going up is not a factor that we look at in terms of because it's not that your ability to pass on is not there, you will pass on. So, that's not an issue. The contrast comes from the expecting demand, we expect demand situation to at least get better, better means I am not looking at it, it actually should start improving from what it was in the first two quarters. Secondly, the premium specialties, okay, are getting into better traction in the second half which I have had even told in my call for the first quarter that we do expect this to happen when we revise the guidance for EBITDA to a higher range of Rs. 20,500 to Rs. 21,500. So, I still remain optimistic on that front in terms of what work my team is doing. The external situation obviously has to be cooperating and we do not see any reason as to why if that happens the sort of work that we are internally doing is not going to yield results.

Moderator: Thank you. The next question comes from Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Sir, my first question is also the Indian market volumes. Sir, in the presentation we have mentioned that the volumes have remained flattish, largely because of the slowdown into the premium consumption and a lower-than-expected recovery into the rural areas. But I believe, sir, the Indian market contribution from the premium side is very lower. So, majority of the portion is only the performance side only. And the recovery into the rural market, I believe, so the urban market was weak, and you had also mentioned that the rural recovery was good, but the urban markets were weak. So, there is some disconnect into the presentation what we mentioned.

K. Natarajan: There is no disconnect. The urban market, if you see, okay, the urban market is weaker when you say the premium categories in terms of, say, your personal care and beauty and wellness has got impacted, correct? Now when we look at that, it is the premium positioning of my customers, it is not my premium ingredients, are you getting me? It is the rating, my customers, customers who have mass masstige and prestige, so they have certain premium categories that they launch, which is more majorly consumed in the urban market. So, when you look at the commentaries of many of our customers, they say that they do see that the demand has got impacted in the urban area in terms of the high-end brands that they are catering, correct? And rural didn't pick up, because rural still is majorly at the mass segment, and that is significant enough for them to have a good volume growth.

Aditya Khetan: Okay. And sir, possible to quantify what would be the premium and the performance split into the Indian volumes?

K. Natarajan: I do not think we have that, and neither would we want to do that, we do not have it right now. Yes.

Aditya Khetan: My second question is on to the other expenses. Sir, there is a steep jump into the other expenses, I believe largely this is led by the freight only. Sir, on an average, when we look at the freight cost, that is, so that means that around 4% to 4.5% of sales, generally for the last four to five years. Any numbers which you can quantify, so this number has jumped from the 4% to 4.5%, which is why we are seeing this higher other expense?

K. Natarajan: See, what we need to understand is that any increase then in the freight rate also reflects in my revenue. So, what happens is that the revenue has a higher freight rate in terms of the selling price, and then you have the higher freight rate that gets booked in the expense. So, that is only one of the reasons. I do not see freight rate, because the freight rate as a percentage will go up depending on what sort of material I send, what is the countries to where I send to, that also determines. The mix of the geographies and the product that I send, that also implicates your freight rate. But one thing is very clear is that there is nothing that is significantly impacting us because we are not able to pass on the higher freight rates, okay? It happens with a lag, but we pass on. So, it is not that you are going to have a negative in terms of your freight rates going up.

Moderator: Sir, the line for the participant has been dropped from the queue.

K. Natarajan: Okay.

Moderator: And as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

K. Natarajan: Yes. Thank you, ladies and gentlemen. Thank you for patiently listening to my opening remarks and the very interesting Q&A that we had. I look forward to talking to all of you for the Q3 results call. Thank you so much. Wishing you all a good day. Bye-bye. Thank you. Bye.

Moderator: On behalf of Galaxy Surfactants Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.