CHEMCON Speciality Chemicals Limited

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February 24, 2021

Listing Compliance & Legal Regulatory
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai 400 023

Stock Code: **543233**

Listing & Compliance
National Stock Exchange of India Ltd.
Exchange Plaza, Bandra-Kurla Complex,
Bandra East, Mumbai 400 051

Stock Symbol: **CHEMCON**

Dear Sir / Madam,

Sub: Transcript of Earnings Call held on 16th February, 2021

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Call held on 16th February, 2021 post announcement of financial results of the Company for the quarter and nine months ended December 31, 2020. Transcript will also be hosted on the Company's website.

This is for your information and records.

Thanking you,
Yours faithfully
For Chemcon Speciality Chemicals Limited

Shahilkumar Kapatel
Company Secretary & Compliance Officer
Membership No.: A52211

CHEMCON SPECIALITY CHEMICALS LTD. VADODARA.

"Chemcon Specialty Chemicals Limited 3QFY2021 Earnings Conference Call"

February 16, 2021

ANALYST: **MR. PRASENJIT BHUIYA – AMBIT CAPITAL**

MANAGEMENT: **MR. KAMAL AGGARWAL - MANAGING DIRECTOR - CHEMCON SPECIALTY CHEMICALS LIMITED**
MR. RAJESH GANDHI – CHIEF FINANCIAL OFFICER - CHEMCON SPECIALTY CHEMICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Chemcon Specialty Chemicals Limited 3QFY2021 post results analyst Conference Call hosted by Ambit Capital. 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 the Conference Call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prasenjit Bhuiya from Ambit Capital. Thank you and over to you Sir!

Prasenjit Bhuiya: Thanks, Faizan. Good afternoon everyone. Thank You for joining Chemcon Speciality Chemicals 3QFY2021 Conference Call. We have today with us management of Chemcon represented by Mr. Kamal Aggarwal – Managing Director and Mr. Rajesh Gandhi – CFO. We will start with brief update on the business followed by Q&A. I invite now Mr. Kamal Aggarwal for his opening remarks. Over to you, Sir!

Kamal Aggarwal: Thank you very much Prasenjit. Good afternoon to everybody. On behalf of Chemcon Specialty Chemical Limited, I extend a very warm welcome to everyone for joining us on our earnings call today. On this call, we are joined with Mr. Rajesh Gandhi, who is a CFO, and we have SGA as our Investor Relations Advisors.

Since some of you may be hearing us for the first time today, we will give you a quick snapshot on our company and then will walk through the operational and financial performances.

We are manufacturers of specialized chemicals, such as HMDS, that is Hexamethyl Disilazane and CMIC that is Chloromethyl Isopropyl Carbonate which are mostly used in pharmaceuticals industry. We categorize both of them as specialty chemicals for the pharmaceuticals industry. HMDS is primarily used in pharmaceuticals, it is also used in semiconductor industries and it is principally for organic synthesis.

As per calendar year 2019, we were only the manufacturers of HMDS in India and third largest manufacturer of HMDS in the world. Globally, our market share would be between 10% and 11% of the global production. HMDS business has fairly performed well for the quarter. It contributes around 51% of our total revenue of which 82% is contributed from the domestic market and around 18% is contributed from the exports.

We are looking forward for the new applications opportunities of HMDS. Our high purity HMDS facility is in trial run for some end applications. We have also initiated the supply of high purity HMDS in smaller volumes as an executive order although it may not commercialize immediately due to high restriction period but surely it will fructify in the coming quarter.

CMIC, the Chloromethyl Isopropyl Carbonate is an antiviral drug intermediate product which is a key intermediate for the anti-aid and anti-hepatitis B drug which is Tenofovir. Currently, we witness high demand for the product, not only in the domestic markets but also in the international market. There has been a huge volume growth coupled with better realization. As per CY2019, we were the largest manufacturers of CMIC in India and second largest in the world, in terms of production and capacity. During the current calendar year, we shall become the largest manufacturers of the world. I would like to update you, yes; we have done volumes far beyond the largest producer's volume with the earlier data for the calendar year 2021. CMIC has contributed around 36% of our total revenues of which equal share of domestic as well as export market. Globally, we have market share of around 30% in terms of the productions for this product.

We also produce inorganic bromides, called Calcium Bromide, Zinc Bromide, Sodium Bromide, which are mainly used as completion fluids in the Oilfields Industry also known as Oilwell completion chemical. These bromides are generally used in new Oil Well projects. As per CY2019, we were the only manufacturers of Zinc Bromide and largest manufacturers of Calcium Bromide in India in terms of production. Globally, our market share would be around 3% in terms of production across all bromide capacities. Our Oil Well completion chemical segment has recovered during the quarter on back of rebound of the oil and gas industry expansion activities which has partially negated our muted performance in H12021. We faced shortage of Bromine which is one of the key raw materials for manufacturers of bromide and therefore had lower than the anticipated productions. Although, the global business environment is improving and evolving at the same time, we look forward for the improving demand in the range of bromides in the end market.

Our manufacturing facilities are ISO Certified facilities. They are at Manjusar which is about 20 km from Vadodara in the state of Gujarat. Currently, we have seven operational plants within the state premises. We also have an inhouse lab to test the raw materials procured as well as ongoing product testing which are at the various stages of the manufacturing process.

In addition to the operational plant, we have started construction work of two additional plants plant number 8 and plant number 9, we call it as P8 and P9 within the enhanced premises of the manufacturing facility. The additional plants are to be used for the manufacturing of chemicals used in pharmaceutical industry in principle.

Post completion of expansion plant, the total volumetric reactor capacity available to the company for processing would be around 625kl, P8 and P9. The two plants out of which P8 is expected for the completion and initial commercialization of the same would be taking around five months from now whereas plant number P9 is expected to go for the commercial production around 12 months.

We supply a product to countries like USA, Italy, South Korea, Germany, China, Japan, UAE, Serbia, Russia, Spain, Thailand, and Malaysia. These are the countries wherein we have already supplied the products and we have our presence on regular basis.

Both pharma chemicals and the oilfield completion chemicals businesses have reported a decent performance during this quarter. There was an overall revenue growth of 16% in the topline and 25% volume growth on year-on-year basis. There has been meaningful demand in the pharma industry which has elevated our CMIC and HMDS chemicals business. Our new chemical businesses for 4-chlorobutyryl chloride have been successfully commercialized and have started contributing to the topline. Our endeavor is to shift to more value-added solution which will help to sustain our business and create new leap of growth. We foresee business momentum to continue on the back of the recent capacity expansions, new commercial products, robust demand in the pharma chemical and economic recovery of the oil well completion chemicals.

The government has initiated PLI Scheme, the Production Linked Incentives scheme which aims to promotion of manufacturing of critical key starting materials, that is KSM or the drug intermediates for the API industries in our country. We are likely to benefit indirectly on approval of Penicillin products**.** HMDS and CMIC business realization has varied throughout the quarter. However, our volumes are committed with our clients being their long-term partners. The margins are likely to remain as range bounds; it is only the volume that keeps on improving and adding on the returns to the company.

I would like to handover the call to Mr. Rajesh Gandhi, CFO to take you to the financial performance walkthrough.

Rajesh Gandhi: Thank you Mr. Aggarwal. Good afternoon everyone. Q3 FY2021 has been a reasonable quarter for us as we continue to sustain a high growth trajectory from pharma chemicals and has witnessed demand recovery from bromide business. Q3 FY2021, total revenue for Q3 stood at 64.8 Crores, a growth of 16.3% on Y-o-Y basis. Domestic market contributes around 79% whereas international market contributes around 21%. Production volume for

Q3 FY2021 was at 2,121 metric ton as compared to 1,698 metric ton same period last year growth of 25%. This growth was on that of demand recovery in bromide production.

Segment wise revenue for Q3 FY2021 are as follows: HMDS revenue stood at Rs. 26.1 Crores, CMIC revenue stood at Rs. 25.3 Crores, Oil Well completion revenue stood at Rs.11.1 Crores, EBITDA growth by 70% to Rs. 22.8 Crores in Q3 FY2021 on Y-o-Y basis. Net profit for the Q3 FY2021 stood at Rs. 15.5 Crores a growth of 77%.

Nine months FY2021, total revenue for quarter stood at Rs. 172 Crores, degrowth of 18.2% Y-o-Y basis. Deliveries due to the lower offtake of bromide business in H1 FY2021 which has been partially negated my moderate business recovery in current quarter.

Domestic market contributes around 71% whereas international market contributes around 29%. Production volume for nine months FY2021 was at 4886 metric tons.

Segment wise revenue for nine months FY2021 are as follows: HMDS revenue stood at Rs. 87 Crores, CMIC revenue stood at Rs. 62 Crores, Oil Well completion revenue stood at Rs. 18 Crores. EBITDA stood at Rs. 16.3 Crores in nine months FY2021, a growth by 6.3% on Y-o-Y basis.

Net profit for the nine months FY2021 stood at Rs. 40.9 Crores, a growth of 4.7%. Total capital expenditure incurred for the nine months FY2021 has been Rs. 25 Crores of which is Rs. 21 Crores has been done through internal approval and balance from IPO process. Rs. 4.3 Crores has been utilized for expansion of manufacturing facilities whereas Rs. 40 Crores has been incurred for working capital requirement.

With this, I conclude the presentation and open the floor for further discussions. Thanks.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.

Ankit Agarwal: Thanks for the opportunity. I have a couple of question. Starting with on our new products DHT and 4-chlorobutyryl chloride, I had a few questions on these, what is the current capacity for these two new products?

Kamal Aggarwal: The DHT is 50 tons per month and 4-chlorobutyryl chloride is 100 tons per month, that is 600 and 1200 per annum.

Ankit Agarwal: What is the tentative market size for these products?

Kamal Aggarwal: Tentative market size for 4-chlorobutyryl chloride is around 8,000 tons per year, 700 tons a month and for DHT it is 2,500 tons per year about 200 tons per month.

Ankit Agarwal: That is helpful. What is the competitive landscape for this product?

Kamal Aggarwal: 4-chlorobutyryl chloride, it is manufactured by couple of other manufacturers in the country, 2, 5 DHT is still to be manufactured. There are no competitors for that.

Ankit Agarwal: Okay and what are the kind of revenues that we are expecting for the next year FY2022?

Kamal Aggarwal: FY2022, that will depend upon the how it is picks up the volume because these are key intermediate, KSM, it is the key starting material or in quadrant intermediate, the approval takes longer time, so I will not be able to give you guidelines on the revenues that can be seen on this.

Ankit Agarwal: As you said they are KSM, so what are the end applications for this product then?

Kamal Aggarwal: It is for Lamivudine particularly.

Ankit Agarwal: I have a couple of more questions, so on the HMDS Purety, which has a total capacity of 600 metric tons, what are the industries that we are targeting apart from the pharma?

Kamal Aggarwal: This will be particularly for the non-pharma applications; it will be for the semiconductor industries as well as pharmaceutical rubber industry.

Ankit Agarwal: How much are we expecting it to commercialize for the next year?

Kamal Aggarwal: Next year we are expecting around 300 tons of volume to get commercialized.

Ankit Agarwal: And that turns to how much revenue?

Kamal Aggarwal: Revenue, HMDS prices keeps on varying in the market, in the international market. It depends upon the raw material pricing where prices moves up and down. Similarly the final product prices are moving up and down, so revenue cannot be assured or cannot be estimated on the basis of that. We work on the per kg input margins. We principally work on that and that sounds to be a good volume value over value addition over there.

Ankit Agarwal: One last set of questions, last quarter, we got approvals of 40 odd products, so have we finalized any product for commercialization out of these products?

Kamal Aggarwal: The 4-Chlorobutyryl Chloride and DHT are part of that

Ankit Agarwal: Okay, so these are the two one that have got commercialized?

Kamal Aggarwal: Yes.

Ankit Agarwal: Any further capex that we are planning to do?

Kamal Aggarwal: The plant 8 and 9 are under construction P8 and P9 for which the IPO proceeds had been taken also the internal accruals had been put. We have updated you about Rs.25 Crores has been already incurred towards the capex cost and further it is ongoing, so that will come up with the two new plants.

Ankit Agarwal: This capex is for the existing products or any new products?

Kamal Aggarwal: It is for multipurpose plant. We will be able to carry out the existing productions on that as well as we can go ahead with multiple other products also.

Ankit Agarwal: Okay, fine Sir. That answers all my queries. Thanks a lot and best of luck for the future.

Moderator: Thank you. The next question is from the line of Isha Savla from Arya Securities. Please go ahead.

Isha Savla: My first question is to understand whether the price realization across all three-business verticals are same or it has fluctuated very much and if it has fluctuated the how are we dealing with it?

Kamal Aggarwal: The product pricing has fluctuated to a certain extent, say for example, CMIC the revenues or the sale price has gone up by more than 20%; however, there is no change, negligible change in the raw material costing or the production cost. However, the production cost has rather come down because of the higher volume. We have taken the volumes from 800 tons to real time production of around 1700 tons., So that growth has given us the cost benefits also as well as the realization has increased. In respect to other key product that is HMDS, the prices have dropped to the tune of around 35%. However, the raw material cost has also dropped to the tune of around 35% to 40%, so ultimately the value addition or the gross margins has remained consistent. The volume growth has given us the additional values.

Isha Savla: I have one more question that when are we expecting to commercialize the P8 and P9 facilities and which products are we expecting to launch there?

Kamal Aggarwal: P8 we are expecting to commercialize within a period of five months to five and half months from now and P9 would take another about 12 months from now. The products we have already listed which are 4-chlorobutyryl chloride, 2, 5 DHT expansion CMIC expansions and this will be the multiproduct plant wherein we will be able to make this existing product as well as the new products for which we have got the permissions from Government of India.

Isha Savla: Thank you.

Moderator: Thank You. The next question is from the line of Amit Shah from ACE Securities. Please go ahead.

Amit Shah: Good afternoon Sir. I have few questions, one would be in our HMDS, did we see any benefit directly or indirectly through PLI scheme there are customers have received approvals and we may have received some enquiries?

Kamal Aggarwal: Penicillin G was imported from China for most of the volumes and India was not manufacturing that. Now PLI scheme Aurobindo has got approvals on that, Aurobindo may be coming up with Penicillin G, so that will add on the volumes of the final products that is Penicillin G based antibiotic. All the antibiotics manufacturers in the country are our regular customers and including Aurobindo. So as the volumes will grow, there will be additional volume requirement so demand supply will be affected and Chemcon will be benefitted by having a larger market volume.

Amit Shah: Sir and in our bromide business what is our current status for business?

Kamal Aggarwal: Current business for the bromide business is it was expected that once the crude oil prices cross \$50 to \$52 the flow of requirements should come in that as it was anticipated the things have started moving in the direction. We have started getting the demands as well as we have also started getting the flow or the clearances for the pending orders we had. So, the dispatches have been initiated, supplies have started, we have got the volume requirements now. So, hope this will be getting recovered to most of the extent in the current quarter.

Amit Shah: Okay, and about our raw material that is bromine how are we dealing with the shortage of this raw material?

Kamal Aggarwal: We have obligatory contracts with our existing suppliers and as their productions are coming up, we will be getting the materials. We have also put up the flow of imported materials, we have started doing that and we are getting the raw materials from overseas to manufacture the final product.

Amit Shah: So, are we just relying on imports or we also have domestic players for this raw material?

Kamal Aggarwal: Major supplies are from the domestic players. We have just initiated the imports also.

Amit Shah: Okay, we have initiated the imports. Sir, my last question, what are the steps that we are taking to reduce our client concentration, earlier we had stated that we will find few new opportunities on existing products. So, can you just share some color on it?

Kamal Aggarwal: Client concentration for the particular two products, you see all the Indian manufacturers or the users are my clients, so that concentration depends upon the volumes that we are manufacturing. The reduction of those concentrations is by way of exports only. We have created the export facilities. We have our team to care of that and we are working to export the products in overseas market thereby that will help us reducing the concentration.

Amit Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Good afternoon Sir. Thanks for the opportunity. Just one question, generally what percentage of HMDS as business is catered for Benzene?

Kamal Aggarwal: I do not have that segment wise separation or the product wise consumption of HMDS. I would like to just say that the total volumes what we produce as on date are nearly consumed for the pharmaceutical industry. I do not have the breakup on that.

Jigar Valia: Okay, there are other segments, semiconductor or organic synthesis would be the smaller pie and the larger one would be pharma entirely?

Kamal Aggarwal: Yes, anytime it will be as volumes if we consider it will be like that.

Jigar Valia: With regards to the capacity expansion also it will continue to be that way?

Kamal Aggarwal: Yes, capacity expansions also will be in line with that.

Jigar Valia: Thank you

Moderator: Thank you. The next question is from the line of Darshil Zaveri Individual Investor. Please go ahead.

Darshil Zaveri: Sorry my line had got disconnected, good afternoon. My question was could you just give any revenue guidance and profit guidance for the next year?

Kamal Aggarwal: I am sorry Darshil it is too difficult to provide that right now on revenue or profits.

Darshil Zaveri: Could you just give any target or something may be that we want to achieve in two year – three years, or something like that. That would be very helpful?

Kamal Aggarwal: I would say that we are targeting a growth of around 15% to 20% in HMDS and around 30% in CMIC plus we will be adding few other products.

Darshil Zaveri: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Straight Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question but continuing with the previous question on aspiration because you have done IPO and you are putting P8 and P9 and you must have some other roadmap. So, ROE, ROC some like five years vision or something if you can share which enables us to keep tracking you and start understanding more, how do you propose to take this company forward as a promoter? Thank you.

Kamal Aggarwal: Mr. Gandhi this is a too difficult question to be answered. The target of any promoter will always be a long vision to take the company to multiple levels compared to wherever you are. We consider we have a pack size of around Rs.50 Crores to Rs.60 Crores and within couple of years we would like to take it to multiple folds. That is the only reason I could give you. We have always remained the leaders in whatever products we have manufactured. We will remain with all even the new products that we will be adding on. That is a clear vision I can give you anything beyond this will be too difficult for me.

Nitin Gandhi: How does the innovation and other thing new product line up stacks and what are the things in pipeline?

Kamal Aggarwal: Innovation products as you can see even the DHT it is not manufactured in the country by others. Similarly, we have other products in pipeline in development as well as under trial testing with the customers. We are all innovative. Those products do not have other manufacturers in the country. So, that sort of products only we would be entering that is the key criteria or the key interest of the management.

Nitin Gandhi: Can we understand some size like Rs.100 Crores–Rs.50 Crores what is the product size where you will enter. What could be the asset turnover or minimum margin which you will think forward to when you add a product?

Kamal Aggarwal: When we add on a product we consider less than a year's payback period for the capex that has been incurred and we expect a topline of somewhere around Rs.75 Crores to Rs.100 Crores at least for the new products that has been added.

Nitin Gandhi: I missed your payback period sorry for that, can you just repeat that?

Kamal Aggarwal: The capex payback period we consider nearly less than a year and we consider revenue of around Rs.75 Crores to Rs.100 Crores size of volumes based on the present pricing. That is what we consider as product. We also consider that the other manufacturers are there in the domestic market better to avoid that.

Nitin Gandhi: And you say that you will be adding at least two products on an ongoing basis every year?

Kamal Aggarwal: Can be said like that.

Nitin Gandhi: Thank you very much.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from ARC Capitals. Please go ahead.

Ankit Agarwal: Thanks for the follow up. Sir, I just wanted to understand more about the competitive landscape in the businesses that we are in, the business verticals. So, can you just have bit elaborate more on that, like who are the competitors in India and across the world?

Kamal Aggarwal: Our competitors in India for the existing products are not much. We do not have competitors for HMDS. We have competitors for CMIC i.e., Paushak Limited a listed company, Alembic Group Company and we also have Anshul Chemicals, that is the Excel group company. These are the other two manufacturers of CMIC. We do not consider them as competitors because there is a major volume production difference between the two. They are nearly 15% to 20% each against our production. But that is a competition available to us for CMIC and HMDS we do not have any competition. HMDS we have only the international competition from the Chinese in principle.

Ankit Agarwal: How do you see these markets expanding, like do you see as taking more market share?

Kamal Aggarwal: Penicillin's will be manufactured in India naturally the market would be expanded.

Ankit Agarwal: Okay, and like what rate do we expect this to grow at?

Kamal Aggarwal: We carried out an industrial survey and we got a report that around 5-6% growth would be there. However, actual growth is much more compared to that. We can feel that when our sales are based on the import competition there is a consumption of more than 5000 tons; our production is around 3000 tons there is a gap of 40% or more. So, we have to fill in the gap, we just have to stop the Chinese entering the country.

Ankit Agarwal: That answers my question. Thanks a lot.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Thanks Sir and most of the question have been answered. Just on that new product 4-chlorobutyryl chloride and 2, 5 DHT, if you can through some more color, I guess in the presentation that 4-chlorobutyryl chloride the shipment supplies there was the first sale that we had refuted in FY2021 with the current financial year. So, if you can through some more color into how the supplies have and in terms of product approvals for both the products and in terms of potential sales opportunity for the next two year–three years?

Kamal Aggarwal: Arpit, I have already updated on this, that the 4-chlorobutyryl chloride we have already initiated the supplies, commercial supplies. We have supplied around 45 tons of this product. Market size is around 700 tons per month in the country. Our production capacities are about 100 tons. So, that is where we can see, it is an entry barrier pole position. We are overcoming that. That will take couple of months. We will be able to throw the product in the market commercially. There should not be any problem. In respect to 2, 5 DHT again it is a key starting material for the Lamivudine. It is part of the molecule, so it requires lot of approvals and it requires lot of stability studies which is a time-consuming factor. The said things have already been initiated since more than four months and we hope that is a market size of 2500 tons against 25% of that would be our production it is not a bigger one. So, entering or penetrating the market and with no domestic competition the product we should be able to deliver to the market with an ease. However, yes the approval time has to be taken care of. That bypassing that time is ruled out being the key starting materials. So, the field of application is open, the demands are open it is only the time factor.

Arpit Kapoor: So, as per another 2, 5 DHT our production has stabilized to that extent and are, we in the process of getting it approved with various pharma companies or we are still to approach that process?

Kamal Aggarwal: No, we are in the process of getting it approved.

Arpit Kapoor: Typically let us say when we start a new product for any pharma company does it also involve plant inspection or given our past credentials it will not be required?

Kamal Aggarwal: It 100% involves the plant inspection.

Arpit Kapoor: Okay, so we are hopeful that we may get let us say, some approvals in the following in fiscal 2022?

Kamal Aggarwal: Yes, sure.

Arpit Kapoor: Okay, and then we will see a gradual ramp up depending upon how the acceptability of product vis-à-vis let us say because there are multiple companies which are making, we are that you are talking about. So, then we would be a person to most of these in that case?

Kamal Aggarwal: Yes.

Arpit Kapoor: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Straight Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question again. Just trying to understand that our lead product HMDS has 51% contribution. What is our trend and what makes other not to try this product though it is almost substantial earner for you and no competition is setting up and may be some people have tried and the reason for their failures and what makes you feel that whatever Chinese import is as still you can grab the market? Thanks.

Kamal Aggarwal: This is one of the key products that is being manufactured by Chemcon and since we started with 4 tons per month of this product, today, we are working on with more than 300 tons nearly of the production per month. We have multiplied the production, real time productions not only the capacities to the tune of 70 times to 80 times. The product has become too big for a small-scale industry and it is too small for a large industry. We are stuck up in between. The product is stuck up in between like that. The crux of the product yes, it is the technological involvement. It is the key engineering that has driven the product, taken the efficiency to a better extent. Putting up the plant to manufacture this product on a small scale is ruled out to achieve the efficiencies and hence the competitive enough. Entry barriers if you go through the documents you can see entry barriers for the customers well this is an important chemical as far as products are concerned. Any deviations can result into problematic effect may be commercially or may be even product quality wise to the pharmaceutical industry. So, changing the suppliers requires lot of approvals for the regulatory markets so, this sort of entry barriers lies there. These are high processing risk chemicals, major skills in handling of the raw materials and the products that are crucial, so that is not only technical skill, but it requires even a long-term practicing of the product. Chemcon, the team we have the skills, educated matured skills of more than two decades. So that is the key area and most of the people, we had 7 other companies in our country manufacturing this product including Ranbaxy and Orchid Chemicals indirectly Aurobindo. Today, the in-house manufacturing is only by Lupin that is that too a partial volume, balance of volumes they are getting from us. I do not know the competitor cannot be stopped yes. Anybody can come up but since more than a decade we are in the position of enjoying a monopoly position, controlling the things, controlling the markets, we are being controlled by Chinese or we play hand in hand with Chinese and side of the domestic market.

Nitin Gandhi: Thanks for long question answer. What will be in-house manufacturing of Lupin, any estimate?

Kamal Aggarwal: They require it for two different qualities. Lupin is using it Cephalexin and there is an intermediate called 7-Aminodesacetoxycephalosporanic acid/7-ADCA, so they manufacture the product for 7-ADCA which is a very low around 45% purity product. They do not manufacture good quality product 99% or having high purity for which is required for Cephalexin. So, all that volume for Cephalexin are being supplied by us so, a low purity intermediate stage that they manufacture and use it in-house. It not a salable product.

Nitin Gandhi: Thanks a lot.

Moderator: Thank you. The next question is from the line of Prasenjit Bhuiya from Ambit Capital. Please go ahead.

Prasenjit Bhuiya: One question on the bromide, so your bromide volumes have picked up this quarter but was there any impact on bromide volume due to lack of raw material or raw material challenges?

Kamal Aggarwal: I am not clear on this, Prasenjit.

Prasenjit Bhuiya: Sir, I am asking whether there was any impact on the volume offtake of bromide due to raw material challenges this quarter.

Kamal Aggarwal: No, raw availability has not impacted the volume productions or the shipments or dispatches in this quarter. We had enough raw materials to take care of the next couple of months and it is only the market pickup which has started and has started pushing up the material.

Prasenjit Bhuiya: Sir may be from this quarter can we expect close to your earlier quarterly level volumes of close to a million kg of volume per quarter for bromide given the uptick?

Kamal Aggarwal: Not close to that may be around 60% to 70% of that volume we will be able to recover in the current quarter also.

Prasenjit Bhuiya: Sir, how has been your working capital in terms of receivables for the nine months of FY2021?

Kamal Aggarwal: Rs.85 Crores is the receivable.

Prasenjit Bhuiya: Sir CMIC the outlook in general has been very positive in the last few months. I mean going ahead for next one year or two years how do you feel the offtake and how the end products like Tenofovir doing for CMIC?

Kamal Aggarwal: I do not know for the Tenofovir exactly but based on customer discussion with the orders and with increase in their production volumes as they have targeted, or they are planning, we have also got the plans to increase our production capacities or even the real time productions by 30% in FY2022.

Prasenjit Bhuiya: Realizations are also kind of stable?

Kamal Aggarwal: Realizations are stable to on an increasing mode.

Prasenjit Bhuiya: Thank you Sir. Thank you for your time.

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

Kamal Aggarwal: Thank you. Since India is currently a net importer of both HMDS and CMIC with about 40% and 62% respectively, hence there is an ample room for import substitution. Our bromide business is showing sign of recovery led by few projects in oil industry. With our new capacity expansion and technical expertise, we are well equipped to garner this opportunity. We are looking forward to penetrating new clients and bringing in more value additions for them. New products and applications, new opportunities within the existing products, new capacity expansions, new geographic market and ongoing cost efficiencies are going to be the growth lever for our organization. With this I conclude the call. If you have any further queries, please contact SGA, our Investor Relation Advisors. Thank you everyone for joining us today on this earning call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.