November 10, 2023

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

**Sub:** **Transcript of the conference call on the Un-audited Financial Results (Consolidated and Standalone) for the quarter and half year ended September 30, 2023 held on November 6, 2023.**

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

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

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 No unpublished price sensitive information (UPSI) was discussed during the interactions.

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

Thanking You,
**For Camlin Fine Sciences Limited**

RAHUL SAWALE
Digitally signed by RAHUL SAWALE
Date: 2023.11.10 14:58:16 +05'30'

**Rahul Sawale**
**Company Secretary**
**& VP Legal**

# "Camlin Fine Sciences Ltd. Q2 & H1FY24 Earnings Conference Call"

## November 06, 2023

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**MANAGEMENT: MR. ASHISH DANDEKAR – CHAIRMAN & MANAGING DIRECTOR, CAMLIN FINE SCIENCES LIMITED**
**MR. NIRMAL MOMAYA – MANAGING DIRECTOR, CAMLIN FINE SCIENCES LIMITED**
**MR. SANTOSH PARAB – CHIEF FINANCIAL OFFICER, CAMLIN FINE SCIENCES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Camlin Fine Sciences Limited Q2 and H1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Dandekar – Chairman & Managing Director. Thank you, and over to you, sir.

**Ashish Dandekar:** Thank you. Ladies and gentlemen, welcome to our Conference Call. We are going to follow the usual routine that we do. Along with me are my colleagues Santosh Parab – CFO and Nirmal Momaya – Managing Director.

We've been navigating tough times in the chemical industry, but we are doing adequately. And to explain to you more in detail about how the quarter has gone, here is Santosh.

**Santosh Parab:** Thanks, Ashish. Good afternoon, everyone and thank you for joining us on our Q2 & H1 FY24 Earnings Conference Call.

Before I begin, I would like to mention that some of the statements which we will be making today's discussion may be forward-looking in nature and may involve certain risk and uncertainties. Your attention is drawn to the safe harbor statement made in our investor presentation published in the stock exchanges and hosted on our website, along with the unaudited financial statements for Q2 & H1 FY24. I hope you are able to have a look at them.

As you are aware, we are back after a forced incognito mode for the last couple of quarters due to the ongoing procedure of open offer. A lot has happened after the last time we interacted back in February 23, and you will be largely aware of those through our disclosures. Current financial year started with an array of challenges triggered by a slower than expected recovery of the key global economies, the COVID hangover, global microeconomic pressures, weak Chinese local demand, and further weaker Chinese economy, intense destocking in supply chains, geopolitical tensions in Europe and now in Southeast Asia, higher interest rates, and also reducing global prices. Widening divergences among economic sectors and regions has made it more and more difficult to strategize for the future in our industry. Slower than expected recovery of Chinese market and its underperformance, deepening geo-economics fragmentation, crude prices may also get impacted by the Israel-Palestine war and also erratic weather in various geographies may result at the trend of softening of consumption of goods and weak productivity growth to linger and impact even the fourth quarter of this year. The management, however, has tried to navigate through these difficult times without leaving focus on the long-term strategy.

Now coming to the financial results, company's operating revenues for the quarter are at Rs. 405.88 crores, which is 3.3% and 16% down as compared to last quarter and the corresponding last year's quarter respectively. The stability of revenue though was achieved despite temporary shutdown of our CFS Europe Diphenol facility in Italy, delayed scaling up of vanillin contribution and lower prices. The boost has been due to an excellent growth in the blends business which has been and remains our primary focus for our future strategy of becoming a significant and large player in the ingredient market. Revenue in CFS Europe due to the temporary shutdown reduced to Rs. 42 crore as compared to Rs. 112 crores in Q1 FY24 and Rs. 155 crore in Q2 FY23. CFS Europe primary markets, Hydroquinone and Catechol, which are as we call them as performance chemicals. This has naturally negatively impacted the revenues from performance chemicals segment. We are closely monitoring the market dynamics that would restart the operations when the conditions turn favorable. At the same time, we are exploring avenues for likely alternative use of the plant as well as devising cost mitigation strategy to reduce fixed costs during the shutdown period.

The blends showed excellent growth in the revenues due to stabilization of business in our subsidiaries in North America and Brazil. Significant breakthroughs were achieved in North America, which will sustain the growth in the blends business. CFS Mexico is supporting services of CFS North America for the servicing of this turnover. CFS North America achieved a revenue of Rs. 67 crores in this quarter as compared to Rs. 61 crores in the Q1 FY24 and Rs. 16 crores only in Q2 FY23. In Brazil, we have rigid the execution strategy by focusing on higher margin products, linear teams and extensive cost reduction program. Brazil is steadily growing both on the revenue and margins. CFS Brazil's revenue for the quarter was Rs. 41 crores as compared to Rs. 39 crores in Q1 FY24 and Rs. 33 crores in Q2 FY23. CFS Mexico continues its dominating position in South and Latin America with a turnover of Rs. 119 crores, which of course includes Rs. 34 crores in the turnover for servicing revenue of CFS North America. Though Indian markets are not our primary focus, we are making excellent inroads for increasing the blend business in India in animal nutrition and related markets.

Now coming to our aroma business, under which we primarily manufacture and market vanillin, ethyl vanillin and related value-added products. The price of vanillin has been under considerable pressure due to Chinese oversupply. This oversupply has had a negative impact not only on the supply side, but pushed the prices southward. In our opinion, competing with Chinese on prices is a futile exercise and a bad long-term strategy. Up till now, we have followed a cautious and patient approach towards this situation by having controlled production, efficient inventory management, trying to provide superior product than the Chinese and working on value-added products. However, we are evaluating other options also to circumvent this Chinese onslaught.

In the month of August 23, we have started production of ethyl vanillin in the composite vanillin plant at Dyes. As you are aware, we would manufacture both methyl vanillin and ethyl vanillin on campaign basis in this plant. The manufactured product is commercial quality and the samples thereof are being shared with prospective customers for approval. We plan to continue production of ethyl vanillin until end of November 23, before we shift back to manufacture of methyl vanillin.

The Diphenol plant in Dahej, which manufactures the feedstock of hydroquinone and catechol, was working at capacity utilization of 86%. And at present, we are fully consuming the hydroquinone in-house, while around 75% of catechol is used or will be used for in-house consumption.

CFS Wanglong, our Chinese subsidiary, remains closed. However, we have substantially progressed in the approval procedure for change of use of the plant to a new aromatic product, Heliotropin, which is a catechol downstream. We are contemplating restart of the plant in the second half of next financial year.

The gross margins have reduced to 44.9% in current quarter, which is 367 basis point and 575 basis points lower than the gross margins of Q1 FY24 and QI FY23 respectively. The margins were impacted primarily due to reduction in volumes and softening of prices on weak demand. Raw material prices have moved down in the current quarter, but the fall in selling prices have outpaced this reduction. We were able to control other operating expense despite the reduction in volume. Substantial reduction is also an account of reduction in power cost and lower volumes in CFS Europe. Naturally, the resultant EBITDA was severely impacted. The operating Forex adjusted EBITDA stood at Rs. 31.67 crore in the quarter which is at 7.8% of the revenue. It entails a fall of 285 and 362 basis points over Q1 FY24 and Q2 FY23 respectively.

The increase in depreciation as compared to last year's quarter is due to capitalization of composite vanillin plant in the month of January 23 in last fiscal.

Interest net of foreign exchange loss has increased due to recognition of interest on the foreign currency long-term loans utilized for the aforesaid composite vanillin plant.

The overall debt position of company has improved from the end of the last financial year with conversion of US $15 million pertaining to FCC be issued by IFC. Robust cash generation from operations of INR 42 crores has helped the company to tide over the difficult economic situation and has allowed the company to keep its debt in check. The total net debt as on September 30, 2023 stood at Rs. 565 crores as compared to Rs. 680 crores as on March 31, 2023. Of course, the credit situation remains a bit tight, but we are confident to work over it with intelligence, credit and financial management.

Coming to the future scenario, we feel that the microeconomic uncertainty will prevail in the remaining part of this year, but we hope that the second half of the year with the festivities around the populous world like Christmas and Diwali should probably help us to end the year with a better growth and profitability. However, the real picture should emerge only after Q3 FY24. We are focusing on the growth of downstream products of Diphenol which are expected to yield higher margins and realizations. Robust growth in blends business across all geographies will provide further growth opportunities. Of course, we would keep our constant vigil on the restart of CFS Europe plant and derisk with its alternate use. Needless to say, the fundamentals of our company remain strong and the management of company is confident of facing and overcoming such challenges and has done in past.

I would thank you and wish you a very happy Diwali and a prosperous New Year.

Now we'll open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Surya Patra from PhillipCapital (India) Private Limited. Please go ahead.

**Surya Patra:** Looks like a difficult quarter, but the first question what I would have is on the blend side. In this quarter as well as in the first half, it looks like a very strong growth 40% kind of Y-o-Y jump that is what we are seeing. So what is this driving and how sustainable is this? Is it price-led growth? It is volume driven? How should one really think about this segment? Because we have always been saying about 25% to 30% kind of growth in this business segment, which despite of the market condition, we are seeing that is happening or even outperforming. So your outlook and your view on this, sir?

**Nirmal Momaya:** Thanks for the question. Basically, our focus has been in the last few years on developing products, developing supply chains, developing services to be able to address markets in America, Europe, India, and now we are also expanding in other geographies. The focus which was there on specifically US and Brazil, where we had substantial exposure and a large team there focusing on trying to develop the market has got reasonable breakthroughs, which we were probably hoping to have done a few years ago. Due to COVID, it did get pushed a bit. But now I think they're on track. We have our main focus, I would say about 60% of our business in US and North America right now comes from servicing the pet food and rendering business where I think this is good sticky business. The right to win we got really was not necessarily price driven. Of course, there were some price advantages, but we also focused on our offerings of service, our offerings of delivery systems, equipment, and it was a combination of many factors which led to this right to win. And as we speak, we continue to get more and more of these businesses in the pet food and rendering business in North America. In Brazil, our focus was on biodiesel, where we've taken a very strong leadership position in the biodiesel market, where I would say that we probably are between 50% to 60% market share in the biodiesel antioxidant market. However, the real growth, we believe, is yet to come, which is from the animal nutrition side, where we have started making some good progress and breakthroughs, So I think not only sustainable but also growing from the situation that we are in should continue for the next few years. We are very hopeful and confident that this part of the business will continue to grow. We are also focusing on the rest of the world, it's not only the Americas. Our focus is on the pet food market in Europe where we are making some progress and I think we'll have some good breakthroughs coming in the next couple of quarters, even for the European market. From India, we are servicing and growing India in the fish meal in the aqua feed market, where we are seeing good traction. We're also similarly launching these products in markets like Vietnam and Thailand, which are strong in the aqua feed market and the aqua market and also looking at opening up on the animal nutrition side some channels in Europe and Africa. So the focus on the blends business continues and the growth opportunities as we've claimed in the past are yet pretty much on the cards and I think we've got now a slightly stronger base and we'll grow from this.

**Surya Patra:** This is now from the 30% kind of revenue mix now has formed 40% plus in the first half. So do you really see that this moving ahead and kind of capturing the largest chunk of the overall business mix, let's say for the next year and going ahead?

**Nirmal Momaya:** A lot will depend, of course, on what we do in Europe, right because Europe was a considerable part of the performance chemical section, which has come down considerably in this quarter. So as a percentage mix, this looks much bigger than what it was in the past, purely because the reduction that happened in performance chemicals. Now in Europe, of course, at this point of time, we've taken a temporary shutdown. We're evaluating on what we should be doing with the European facility. Of course, prices of hydroquinone seem to be firming up in the current quarter. Maybe there is an opportunity which will come in Q4 to restart this plant. But at the same time, I think we have a very good business case. We are evaluating it and of course we'll come back to the market with more details on it. But at this point of time, there is an opportunity to convert that plant into a multipurpose plant making Hydroquinone, Catechol and then on campaign basis also running it for making MEHQ and Guaiacol from Anisole. It's a very similar process. Only raw material starting for Hydroquinone and Catechol is Phenol, or MEHQ and Guaiacol is Anisole. So all the other processes are very similar. We think and we believe that in the next few quarters we will come back with something in Italy. So then the product mix again changes from that quarter onwards. The blends which look today at 40%-50% will again probably come down by a few notches because the performance chemicals will pick up. So that's the way we are viewing it in the current short-term. In the very long term, of course, performance chemicals and aroma is also a substantial business which is not contributing anything right now, but that also will contribute. So, the blends business will probably remain at that between the 30%-40% mark, the others will grow.

**Surya Patra:** While the growth momentum will continue, but revenue mix possibly will remain around 30% levels?

**Nirmal Momaya:** Correct.

**Surya Patra:** Sir about the Aroma, obviously, I think we are still in the product validation phase. And possibly the contracting cycle that would be there for any product during October to December for following year generally. So possibly we are there in that phase currently in Aroma. And hence, possibly would not have seen any kind of ramp up, but that is my view. You can correct me. What would be your real expectation about the aroma plant or vanillin plant seeing ramp up and can we start seeing even if it is the understanding then fourth quarter onwards since that is falling under the next year, we'll see a kind of meaningful progress and hence according progression subsequently ahead?

**Nirmal Momaya:** Yes, so that is right. What we've always said is that there are several segments of the market in the aroma. And some of them are large flavor and fragrance houses, which contract for a period of 6 months to 1 year, typically 1 year. And we've qualified for making the bids for most of the outsourced or the top 10, all top 10, or maybe nine, we've qualified and we are bidding for those. So we expect by in the next 30 to 45 days to get closure and see and hope that we do get a substantial part of those bids. So the business will take momentum, will pick up momentum. Prices is a big problem is because of the oversupply situation and the Chinese producers dropping prices because of their large inventory buildups. The pricing is not very favorable right now to really push in the trader and distribution market, which we are being very careful not just to get into the market at very low prices. So that's the reason why we've been a little more conservative. However, we look at how the Chinese suppliers are looking at and competitors are looking at the market in the next 45 days and then devise a strategy on what we should do, whether we should follow on one side a volume-driven business or really high-value protective business. So this is really a choice that we have to make, which we will make it during this quarter.

**Surya Patra:** Sir, what is the differential between the contractual prices and the spot prices, if I just try to say, for Vanillin?

**Nirmal Momaya:** I think the price differences can be between 15% to 20% between contracted prices and spot prices typically.

**Surya Patra:** And now the contractual price should be in the range of around $12 odd, that is the understanding or it is?

**Nirmal Momaya:** No, it will be lower than that. It will be lower than that because the Chinese on the spot have come down to almost $8. So our expectation is more at probably $10 or so.

**Surya Patra:** Even they are so influential even in the international, I mean, advance market like US and Europe sir.

**Nirmal Momaya:** See what happens is that the people generally don't buy from them, but that becomes the benchmark. The spot price kind of becomes a benchmark for the year. And they use those spot prices, and they use that versus where they're really actually going to buy from. So in that sense, we believe that if the spot is at 8, then you're looking at around $10. That's for vanillin, and for ethyl vanillin, it'll probably be more like $11 to $12, maybe a little more.

**Surya Patra:** With your permission, last question from my side. So the Italy plant, which is currently off, what is the fixed cost that we are currently facing out of that? And let's say till the time that we are not resuming, what is the kind of fixed cost that it is going to hit to the consolidated number?

**Nirmal Momaya:** The fixed cost is around Rs. 12 crores per quarter. But we also have some small blends business where there is some margin there. So, it'll be in that region. I think our fixed cost should be in the region of Rs. 12 crores.

**Moderator:** Thank you very much. The next question is from the line of Jatin Sangwan from Burman Capital. Please go ahead.

**Jatin Sangwan:** I read an article that Camlin has appointed Univar Solutions for the distribution of Vanillin in North America. So could you please shed more light on this? What kind of partnership is this and what kind of pick up in revenue are you expecting from this?

**Nirmal Momaya:** So Univar of course is that partnership is for distribution of Vanillin in the food and beverage segment, which is the premium segment. That's where you get the best realizations for your Vanillin. That's progressing well. We've supplied a couple of containers, and now I think they've gone into the market, distributed it, and reordering should start in the next 30 days to 45 days. The idea really there is to take a position which is at the premium end of the market. The pricing for that end of the market is even today northwards of $12. But the volumes are of course not as large as they are in the flavor and fragrance house.

**Jatin Sangwan:** And what kind of high utilization are we building in for Vanillin, especially for FY25? And what kind of margins would we make at a contract price of around $9 or $10?

**Nirmal Momaya:** So basically, of course, at this point of time, looking at the raw materials prices, our gross margins couldn't be anything between 15% to 25%, depending on the prices of raw materials. And capacity utilization really will be driven by ultimately in these contracts, what percentage of those contracts are awarded to us. If we get even 50% of those contracts of what we are bidding for, then we can ramp up the capacity utilization very quickly.

**Jatin Sangwan:** And you mentioned that gross margin would be in the range of 15% to 25%, so EBITDA margin, will it be in the range of lower single digits?

**Nirmal Momaya:** No, there is not much cost under the gross margin for selling of aroma, so those costs are in few percentages.

**Jatin Sangwan:** And you were producing Vanillin also at 50% of capacity and since we haven't sold much of Vanillin, so can you specify how much of Vanillin is currently lying on our inventory?

**Nirmal Momaya:** So on our inventory, we have about Rs. 50 crores worth of Vanillin. We are also now building, we started making Ethyl Vanillin. So on a campaign basis, we have moved to Ethyl Vanillin because we need to get that qualified as well. So by end of November, we should have about 200 tons. That's another Rs. 20 crores roughly of inventory of Ethyl Vanillin. So combined will be about 70, but now we are in the process of some liquidation as well.

**Jatin Sangwan:** And just one clarification, your fixed expenses were Rs. 12 crores for Italy plant per quarter?

**Nirmal Momaya:** Yes. Going forward.

**Moderator:** Thank you. The next question is from the line of Ajit from Nirzar Enterprises. Please go ahead

**Ajit:** Sir, I just have three questions. So the first question is on the Lockheed Martin. So could you please provide update on our deal with Lockheed Martin and when we will start receiving the orders from them and can the NegoLyte be used in other flow battery storage solutions also?

**Nirmal Momaya:** Yes, I'll answer you the Lockheed Martin question. The Lockheed Martin, we are progressing well. We are supplying material to them, of course, albeit on a small scale, because there are some commercial orders which they need to fulfill, which is on a smaller scale. The scaling up, as we mentioned in the past, will require a new plant to be built because the capacities that are required would be substantially larger than what we are capable of doing right now. In the meantime, of course, we are putting up some small capacities in the edge for the NegoLyte, but that's probably only for 750 tons a year, though ultimately that becomes more like between 5,000 to 10,000 ton business in a couple of years from now. So that's essentially where we are with Lockheed Martin.

**Ajit:** And this NegoLyte factory, the CAPEX will be done by us or by Lockheed, just wanted to know.

**Nirmal Momaya:** Currently, for the 750 tons is being done by Lockheed, the bigger one will have to, that's some time away. So we have to yet come to a conclusion.

**Ajit:** So the second question is, sir, one of the listed players named Vinati Organics is entering into manufacturing of Anisole with fully backward integration, which require Guaiacol also. So, sir, is there any probability of they entering into manufacturing of Vanillin and if they enter, how this will impact our business, sir?

**Nirmal Momaya:** So, it will depend on what is the size and scale of MEHQ Guaiacol they put. We don't know what their capacities are and what their size and scale is. So it depends on that. Now, if the Guaiacol capacity is limited, they probably will not enter the Vanillin market. It doesn't make sense to enter into this business unless there is substantial volume. So it really depends on what their capacity, what they're building as capacity.

**Ajit:** Sir, I guess I missed a part on the Vanillin thing. So can you just update on what will be the turnover and volume you are expecting from our Vanillin business this year and maybe the next financial year?

**Nirmal Momaya:** So in this year, we are expecting that we should be able to liquidate the stock we have and a little more than that as well. Again, what I did mention in the past is that we have bid for some contracts where supplies should begin from January. We are awarded those contracts even if it's

30%, 40%, 50%. So a lot will depend on what percentage we get. And accordingly, the turnover will be based on that. The next year also is dependent on how much of this business we get awarded because we're not really yet focusing on the distribution or the trader market as it's called, the traders that buy substantial Vanillin because that's being supplied through the Chinese competitors who are very aggressive on the price. So, we are evaluating. By the end of this quarter, we'll decide on what strategy we should follow.

**Ajit:** And just the confirmation, you said that the initial CAPEX will be done by Lockheed Martin. Is it or?

**Nirmal Momaya:** No, sorry. You are asking about Vanillin?

**Ajit:** No, sorry. It was about Lockheed Martin only.

**Nirmal Momaya:** So I said the investment for the current capacities are the future capacity which has to be there, the 750 tons. The future, whenever the larger plant comes, that's a discussion which is ongoing on who will invest.

**Ajit:** So currently they will invest.

**Nirmal Momaya:** Yes.

**Moderator:** Thank you. The next question is from the line of Rehan from Equitree Capital. Please go ahead.

**Rehan:** Firstly, I wanted to ask, is the Anisole process less catechol generative? Just to understand the chemistry. So you would have better HQ and MEHQ realizations, there will be high margins, right?

**Nirmal Momaya:** That's very true, what happens is when we take phenol and we hydroxylate phenol, we get a higher percentage of catechol and a lower percentage of hydroquinone. When you take Anisole and you hydroxylate Anisole, you get lower percentage of glycol which is equivalent of catechol and higher percentage of MEHQ which is equivalent of hydroquinone.

**Rehan:** So basically you will get more hydroquinone, right?

**Nirmal Momaya:** That's right.

**Rehan:** Secondly, a peer in your industry for Vanillin had reported a very poor Q3 as well, India Q3 where they realized there was poor demand and pricing. So what do you feel with the capacity we have, which is quite significant in the Vanillin space? Would we come up with that significant? Do you think that we would see that $10, $12 realization in the next 6 to 9 months?

**Nirmal Momaya:** Yes. So it's a very tough situation to answer because the Chinese competitors have been very aggressive on the pricing. There are some import duties in the US. So US, there is a bigger opportunity to compete versus the Chinese because there are larger import duties versus the Chinese product. Rest of the world, it's more or less the same kind of import duties. So then it's really a question of the quality of product versus their quality and reliability and people are willing to pay some premium but how much of that premium is a little unknown. The problem was that all the other majors had large amount of inventory, the customers and they were unwinding their inventories and that's where the demand also dropped and the price is also dropped. So our sense is that the demand should pick up in Q4 and should start showing some progress. And quality suppliers ultimately will have some advantage over what currently is being serviced.

**Rehan:** And one last question if I can squeeze in, what kind of EBITDA margins do we expect from Vanillin even in a ballpark range if you could give? Like even a range is fine.

**Nirmal Momaya:** Yes, so I did mention that the gross margins will be between 15 to 25 based on what raw material prices will remain. If the crude goes up on one side and raw material prices go up, and if our competitors don't pass that on, then there can be a squeeze on the margin. But it's typically 15% to 25% gross margin and we have 2% of cost for selling. So it'll be in that range.

**Moderator:** Thank you. The next question is from the line of Aditya Jhavar from AK Capital. Please go ahead.

**Aditya Jhavar:** I have a couple of questions. One is on how much CAPEX we have spent on Vanillin project?

**Nirmal Momaya:** We've spent Rs. 290 crores on the Vanillin project.

**Aditya Jhavar:** So basically what can we expect the payback period here?

**Nirmal Momaya:** So originally our payback period was 3 years. Now with the market conditions, it could probably get pushed to between 4 to 5 years.

**Aditya Jhavar:** And currently we see we have total consol debt is around Rs. 600 crores to Rs. 700 crores. So is there any, how much CAPEX is in the pipeline and what is our maintenance CAPEX yearly and when are we looking for long-term debt as a debt free or something? Do we have such plans?

**Nirmal Momaya:** Essentially, we don't have any large CAPEXs planned for the time being. Our net debt situation is about Rs. 565 crores, of which a large portion is also working capital. And the long-term debt stands at about Rs. 230 crores, which is repayable over the next 5 to 7 years.

**Aditya Jhavar:** But what's your process? Do you want to clean it up in 1 or 2 years? What is your thought process on becoming debt free?

**Nirmal Momaya:** At this point of time, it's difficult to answer that because the market conditions, the way they are, we got to keep a lot of alternatives in mind. So even though we could wish that we could be debt-free in the next 2 years, but we don't know whether it will be in 2 years or 3 years or 4 years. But the idea is that we have a debt structure to repay and we'll follow that for the time being.

**Aditya Jhavar:** And the next final question is really long term on the view. So this kind of situation we have seen in the past also, right like Chinese are dumping on the chemical prices. Now, see, it will be like 6 months or 1 year phenomena. So how do you see this inventory gets cleaned up and maybe the next year the prices start moving up because in 2007 or 2008 that also happened in the same cycle, but can you just throw some light what are your thoughts here? How do you see the prices moving up and coming back to normal?

**Nirmal Momaya:** I think going back to 2019, the pre-COVID prices, I think that normalization should happen in the next few quarters is our belief. Now because of the supply chain disruptions and it was artificial pricing for both for raw materials as well as for sales on both sides. The pricing was a little warped during this period of 2020 to 2021 or maybe till 22 December for 2 years. The normalization of that once this destocking is over and people are back to at capacities which were existing in 2019. I think to get back to that pricing seems to be a few quarters away.

**Aditya Jhavar:** So what would be the pricing? Can you quantify?

**Nirmal Momaya:** We have 40 products now, you want me to enumerate on that?

**Aditya Jhavar:** No, on Vanillin?

**Nirmal Momaya:** Vanillin was $10. In 2019, the Chinese pricing was at $10.

**Aditya Jhavar:** Okay, currently also we are at below 10 you are saying.

**Nirmal Momaya:** They are selling at 8. We used to sell between $10 and $11 because our plant was also working in China at that time. So average utilization during that period was between $10 to $11.

**Aditya Jhavar:** So, but we'll not make enough EBITDA on $10 to $11, right?

**Nirmal Momaya:** No, we will because our costs have also now rationalized, right, the raw material.

**Aditya Jhavar:** So $10 to $11 will make sufficient amount of EBITDA you are saying?

**Nirmal Momaya:** Yes.

**Moderator:** Thank you. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

**Nirali Gopani:** Sir, what I understand is that the current Chinese prices for Vanillin is $8 and we are planning to sell our capacity at $10. So I just wanted to know that if this is a contractual thing and we tie a contract for say 6 months or 12 months and this is a price or is there any scope for volatility in this price also?

**Nirmal Momaya:** Generally what you bid for and if you're awarded that contract, it's like a fixed price contract.

**Nirali Gopani:** So then the Chinese pricing will not impact our contract. So there is no clause that will impact the contract.

**Nirmal Momaya:** No, it's not linked to others. If you get the contract, it is at that contracted price.

**Nirali Gopani:** So to get a better understanding, so in February when we had done our last call, we were assuming that the prices were stabilized at $15, and hence a revenue of Rs. 700 to Rs. 800 crores, which is now currently down to Rs. 500 crores is what we can expect from Vanillin. And you feel that we can achieve this revenue in the next 2 years, leaving FY24 aside?

**Nirmal Momaya:** The idea is, yes, in the next, by FY26, we should be in a position to get that kind of market share. That's the assumption that we are working on.

**Nirali Gopani:** And currently we are not being in the market and bidding for the contracts. So our product coming into the market will not impact the prices further, right?

**Nirmal Momaya:** Now that's a very good question. The point is that how much will the Chinese continue to produce and lose money and for how long? So that is the reason why we believe that it will kind of equalize and it will come to a level where the pricing should stabilize at this $10 mark.

**Nirali Gopani:** And, sir, I do understand that we would be working on a lot of other products also. So if I would like to understand, what is the total market opportunity we have? If I want to look at growth over a little longer period, say, next 2-3 years? With all the newer products and our existing products, in your view, how should we look at it?

**Nirmal Momaya:** Yes, our blends business, of course, the addressable market is considerable. There we can continue to grow at 25%-30% as I indicated earlier in the call. In the performance chemicals again depends on how we recheck our Italian subsidiary and those operations. There are some downstream products coming out of hydroquinone and catechol also which we are focusing on where we can get reasonable growth in these products. And on the Vanillin side, what we said earlier that in two years we should be able to ramp it up to at least 90% of capacity.

**Nirali Gopani;** And sir one last question, is this a bottom from the margin side or we do see any pressure in the coming quarters also?

**Nirmal Momaya:** Very difficult to answer that at this point of time. But raw material prices seem to be stable for the last few weeks. But again, dependent on what's going on in the Middle East and if crude prices run away and run up very quickly, that could impact in the short term because it does take a quarter for us to pass on all the prices. So that can impact the margin if the crude price is run up. But what we are seeing also is on the sales side, also there seems to be a slight improvement, which will start showing from Q4 onwards.

**Moderator:** Thank you. The next question is from the line of Saurabh from Multi Act, please go ahead.

**Rahul Pecha:** Yes, thank you. This is Rahul Pecha from MultiAct. So I have a couple of questions. So first question is on Vanillin, like you said that you have bid for some contracts. So just wanted to understand on an aggregate basis, like what kind of volumes have you bid for?

**Nirmal Momaya:** It's about in excess of 4,000 tons.

**Rahul Pecha:** 4,000 tons and we expect a percentage of that to finally come to us right?

**Nirmal Momaya:** Yes.

**Rahul Pecha:** And normally these contracts are for what duration like are these annual contracts for?

**Nirmal Momaya:** For one year, yes.

**Rahul Pecha:** For one year, we have fixed pricing so whatever volatility that happens on the raw material side that we have to bear on our P&L right?

**Nirmal Momaya:** Yes. Unless of course it is more than a band, then of course you can go for a revision.

**Rahul Pecha:** And my second question is on the Lockheed 750 tons initial plant that you are talking about. So that 750 tons could convert to what kind of revenues for us?

**Nirmal Momaya:** That can convert to about, I would say about $10. It was Rs. 60 crores – Rs. 70 crores.

**Rahul Pecha:** So that will be small for the time.

**Nirmal Momaya:** It's just like a pilot plant.

**Moderator:** Thank you. The next question is from the line of Rohan Advant from Prad Capital. Please go ahead.

**Rohan Advant:** So my first question is that what is our current loss on catechol and with us shutting the Italy plant, would that reduce the catechol available in the market and help the vanillin pricing in anyway?

**Nirmal Momaya:** I think there is a significant oversupply, so I wish that was so easy, but no, there is considerable oversupply of catechol in the market. So, us shutting Italy right now currently and reducing the catechol in the market, I don't think we'll have a very immediate impact on our Vanillin prices.

**Rohan Advant:** And so what is our loss in catechol now?

**Nirmal Momaya:** So at Dahej, because now Italy is suspended. So in Dahej, it is about roughly a dollar, dollar ten cents.

**Rohan Advant:** And sir, from the India plant, whatever catechol we are making, we are selling 25% of it and using 75% for vanillin right now. Is that how it is?

**Nirmal Momaya:** Yes. So that is proposed. Right now, of course, till vanillin is scaled up, it is not at that level.

**Rohan Advant:** And sir lastly, just wanted to understand the motivation of the customers or the prospective buyers for Vanillin to buy from us versus their current suppliers. So are we cheaper? Are they looking for a second or third source to diversify their suppliers? Because this going into food items, would the customers be willing to experiment with your newer suppliers? Thank you.

**Nirmal Momaya:** So basically, what really has happened is that due to the supply chain and due to all that happened and transpired between 2020 and now, most large consumers of vanillin, or for that matter, any chemical, are very clear that they want to be not only dependent on one company, one supplier, or even one geography. So they're trying to kind of de-risk themselves and spread their risk on supply chain where if it's only China dependent and if there's an alternative, which is India, they would certainly give India a large chunk of an opportunity for a large chunk of that business. If it is Europe, they are worried about the European sustainability of production in Europe and they've seen in the past that when there is a market crisis and prices go up, they've been out of the market, they were short on material even with contracted volumes in place. So what our understanding is that they want to diversify their risk, whether it is two or three suppliers, they will try and diversify their risk.

**Rahul Advant:** Got it. And sir based on this, our confidence of utilizing our capacities by FY26 is very high, right?

**Nirmal Momaya:** That is true.

**Moderator:** Thank you. The next question is from the line of Jatin Sangwan from Burman Capital. Please go ahead.

**Jatin Sangwan:** Sir, I wanted to understand what are the key raw materials that are required for the production of Vanillin and how has their prices moved over the last 2 years and if you could also tell what is the current cost of production for us for Vanillin and it would be really helpful if you could also break up the cost of production of vanillin by different heads, by raw material, power, and everything else?

**Nirmal Momaya:** That is competitive. We can't give you that kind of information. But I can tell you that, yes, the raw material prices, the key raw material is phenol, hydrogen peroxide, caustic, and glyoxalic acid. There are four key raw materials. All of them today are at a much lower level than they were say 3 years ago. Phenol, at its peak was at a dollar and a half a kilo, today it's at one dollar a kilo. But these are all commodities, they keep moving so very difficult to say what will happen tomorrow. But at this point of time, they have kind of come back to levels which were 2019 levels.

**Jatin Sangwan:** And what is your total cost of production in USD terms per kg?

**Nirmal Momaya:** So it's basically like I said our gross margin is between 15% to 25% depending on the raw material price.

**Jatin Sangwan:** So our cost will vary from 7.5 to 8.5?

**Nirmal Momaya:** Correct.

**Moderator:** Thank you. Next question is from the line of Ajit from Nirzar Enterprises. Please go ahead.

**Ajit:** Hi sir, I just had one follow up on the antioxidant opportunity in Brazil. So sir, how big is the biodiesel antioxidant opportunity in Brazil and can it replicate it in India and other markets also?

**Nirmal Momaya:** Yes. So Brazil, Argentina are two big producers of biodiesel. US also has some production. India is very limited. And then there is Indonesia and Malaysia. So the total market opportunity in Brazil would probably be about $12 million. US would probably be 5-6 million. Europe also there is an opportunity. I think the total market size we estimated to be about 40 million. We are at about 6 million of that 40.

**Ajit:** Okay, understood. And just one question, can you give volume and prices across our categories in this quarter and YoY and QoQ if it is possible?

**Nirmal Momaya:** No, that's impossible to do right now because we have many products.

**Ajit:** And maybe head wise in a sense, if you can?

**Nirmal Momaya:** No.

**Moderator:** Thank you. We have no further questions. I would now like to hand the conference over to Mr. Ashish Dandekar for closing comments. Over to you, sir.

**Ashish Dandekar:** Thank you. Ladies and gentlemen, thank you for participating in our conference call. We look forward to meeting you again at the end of the next quarter. Until then, I wish you and your loved ones a very happy Diwali and a prosperous new year. Thank you.

**Moderator:** Thank you. On behalf of Camlin Fine Sciences Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.