



Clean Science and Technology Limited

i n n o v a t i o n a t w o r k

Date: 02.06.2022

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Fort,
Mumbai – 400 001
Scrip Code: 543318

National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1,
G Block, Bandra-Kurla Complex
Bandra (E),
Mumbai - 400 051
Trading Symbol: CLEAN

Dear Sir/Madam

Subject: Transcript of conference call on the Company's Q4 FY21-22 Earnings.

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

In terms of the referred Regulation 30 read with Schedule III - Part A to the Listing Regulations, we are enclosing herewith the transcript of conference call on the Company's Q4 FY21-22 Earnings held on 30th May, 2022.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Kulkarni
Company Secretary



NK

(Erstwhile known as Clean Science and Technology Private Limited)

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Clean Science and Technology Limited Q4 FY2022 Earnings Conference Call

30th May, 2022

MANAGEMENT:

Mr. Siddharth Sikchi,
Promoter and Executive Director

Mr. Pratik Bora,
Chief Financial Officer

Moderator

Good morning, ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to Q4 FY2022 earnings conference call for Clean Science and Technology. As a reminder, all participant lines will be in 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 * and then 0 on your touch tone telephones. Please note this conference is recorded. I would now like to hand over the call to Mr. Ankur Periwal from Axis Capital. Thank you and over to you, sir.

Ankur Periwal

Thank you Moumita and good morning, everyone. We are pleased to host Q4 and FY22 earnings conference call for Clean Science and Technology Limited. The call, as usual will be initiated with a brief management discussion on the Q4 and full-year performance, followed by an interactive Q&A session. Management team will be represented by Mr. Siddharth Sikchi, promoter and Executive Director, and Mr. Pratik Bora, Chief Financial Officer. A gentle reminder, today's discussion may contain certain forward-looking statements and opinions with respect to the anticipated future performance of the company. Such forward-looking statements involve a number of known and unknown risks, uncertainties and assumptions which could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. With this disclaimer, I'll hand it over to Siddharth for his opening remarks. Over to you, Siddharth.

Siddharth Sikchi

Thank you, Moumita. Thank you, Ankur. Good morning everyone from Clean Science and Technology. I hope everybody is doing well, and I'm happy to connect with you all again to discuss the performance of our company for the last quarter and FY22. We have completed our first financial year after getting listed which was in July last year, and the company has given a strong performance. We have recorded highest ever revenue, EBITDA and PAT for a financial year.

Let me speak a little bit on the business environment. The current global macro environment continues to be challenging both on the geopolitical front and persistent inflation environment. Throughout the year, we have seen prices of key starting materials or raw materials remain extremely volatile, and prices have increased drastically over the last financial year. To give you an instance, phenol is a very key starting material for us at Clean Science and which contributes 50% of our total raw material cost. The cost or the price of phenol from last financial year has doubled in this year. Of course, increase in energy and fuel costs, high international freight rates and supply chain constraints are some of the other challenges, which we witnessed during this financial year. Nevertheless, we continue to work closely with our customers and with regular

discussions for navigating through the current environment and increasing business opportunities.

Despite the various headwinds, we are happy that all our geographies and segments did grow on a very healthy background. And we were able to increase new customers, increase wallet share with the existing customers and we have launched some of the new products.

On financial highlights, the total revenue for this financial year, we closed at 685 crores, which increased 34% over the last financial year. We've had strong growth in export revenues and domestic, so export grew by 38%, domestic grew by 24% and revenue mix remains at 70/30, 70% export, 30% domestic. EBITDA increased to 300 crores as against 259 crores, so which is a 16% year-on-year growth. Profit before tax, PBT was at 305 crores and PAT at 229 crores which grew 14% and 15% respectively compared to the last financial year.

This year, the company did highest CapEx of about 140 odd crores and our balance sheet continues to be debt-free, with a free cash of approximately 250 odd crores. For this financial year, the ROC has remained at 52% and return on equity at 30%. A little bit on sales profile, sales improvement was led by combination of robust volume growth and improved realization across all segments.

Performance chemicals remains as our key growth driver, and it contributes 70% of our revenue. New products which have been introduced in this segment have started contributing and will gradually start ramping up in the coming quarters. Price hike that have undertaken helped us improve our realization across all products. A little bit on Capex in FY22, we did a Capex of about 140 crores, which was the highest ever Capex in the history of Clean Science. Majority Capex was undertaken at our upcoming unit three where we commissioned two plants, PBQ and TBHQ, which are newer products for us. We doubled our anisole capacity and increased BHA capacity by 50%.

We have also increased capacities of MEHQ and Guaiacol by 50% and the plant was commissioned two months ago that is in April. We are also in the process of doubling our PBQ capacity, which should happen in second half FY23. Construction work for our new two plants, is on track in Unit three, which is for HALS Series 701 & 770, and this, we aim to commercialize in H2 FY23.

About new subsidiary. To take advantage of fiscal benefits within the stipulated timeframe, company incorporated a new wholly owned subsidiary under the name of Clean FinoChem Limited. The greenfield Capex on recently acquired 34-acre land parcel will be undertaken through this subsidiary. Majority of our new Capex after the unit three will happen largely at this new subsidiary.

Let me highlight on ESG, so, sustainability is deeply ingrained in Clean Science and Technology and our long-term strategy for sustainable growth. We have implemented several sustainability initiatives that have helped in minimizing environmental impact of our operations.

Since inception, the company has been investing in renewable energy in a significant way, with a particular focus on solar power. As a result of our endeavours over the past few years, approximately 55% of our electrical energy consumption is from renewable sources. We have reduced water consumption by almost 25% and green gas emissions by almost 9% over the past three years. We are very proud to inform that we are the first specialty chemical company in the country to be given the GreenCo Certification. This rating is a clear validation of our company's emphasis on Clean, Green and sustainable practices and manufacturing processes.

We actively contribute to social and economic development of the communities. Our total contribution towards CSR is approximately 11 Crores over the last three years. Our focus has been on education, healthcare, and afforestation. We continue to follow industry-best corporate governance practices, more than one-third of our board members are independent. Our long-term rating by CRISIL was upgraded to A+ positive and short-term rating continues to be at A1+. So, with this, I would like to hand over to Axis team for Q&A.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Sir, our first question is from Mr. Harsh from LTMF, please go ahead.

Harsh

Yeah. Thank you. Good morning, gentlemen and congratulations for a very strong FY22. So, my first question is regarding your growth for the full year of around 35%. Can you just break that down into how much of that was volume and how much of that was value driven?

Pratik Bora

Hi, Harsh. Pratik this side. Thank you for your question. So, Harsh, we don't share typically volume and value wise number, but just to give you an instance, majority of the growth has come from volume. So, for BHA which is the most margin accretive product in our portfolio, we have witnessed around 50% volume growth and around small 7% to 8% as realization growth.

Harsh

Okay. Understood, and how has been the overall environment like for the industry and then specifically for Clean Science in terms of passing on all those incremental costs that has been taken away.

Siddharth Sikchi

There are two ways to look at it. So, one is, see the specialty chemical space is a very interesting space that where raw material prices, when they hike up too much, we do not like to pass everything to the customer. With that, we are able to regain confidence of our customers in us. Rather in this environment, we would rather love to increase our wallet share with our existing and add newer customer to the basket. The result of this is why we are doubling, or we have increased our capacities of BHA by 50%. We have increased our capacities of MEHQ and Guaiacol by 50%. And the whole scenario is that we are passing some price difference to the customer, and we are trying to regain and increase our wallet share with the same customers, so that over the next few years, we are able to garner a better market share compared to our competitors.

Harsh

Understood, and you just spoke about client addition, so far for the full year of FY22, how was overall client addition versus the last year.

Siddharth Sikchi

We first added two new products. One is PBQ which is called para-benzoquinone, and another is called TBHQ. So, so this is absolutely new product in our portfolio, so we've added some clients in these products. And of course, in product like BHA, we have added some new customers in Latin America. In MEHQ, we've added some customers in South Korea, we've added some customers in United States. So, there has been a decent increase of our customers some of the large-scale customers who are buying minority stake from us or minority purchases from us have now moved to a majority purchase from us in this coming financial year.

Harsh

Understood. And just last two questions from my side, you closed this year in Q4 with an EBITDA margin of 41%. First is on these new capacities that we are adding, of new as well as existing products excluding HALS, how do you expect your EBITDA margins to go from there, and if I remember for HALS, our aim is to garner around 10% of market share in next 4-5 years after commercialization. So, how that also will be driving towards the margin?

Siddharth Sikchi

So, I will try, and I will not be able to give a lot of forward-looking statements, but I'll try and satisfy your question. So, in our existing businesses like the BHA and MEHQ and Guaiacol similar margins -- we should be able to get similar margins, and by adding newer customers and of course, as we have added significant volumes, they should definitely result in absolute increase in our revenues and absolute number increase in our profitability.

Now, when we come to the newer products, in this always there is a little gestation, because we are trying to understand the process, learning is still undergoing, yield improvement and you know, there is still efficiency which has to be improved. And plus, whenever you are trying to garner new customers, you have to give some discount compared to their existing current buyer, I mean whoever they are buying from, so due to that the margins would be a little low in the new products. But we are very confident that over the period of few years when we have a decent market share when our plants have stabilized then we have perfect yield and efficiency what we are looking at, the margins should increase.

Coming back to HALS, yes, I mean of course two of the plants which we are anticipating for product 701/770 should begin by second half this financial year. And unit four, the newer unit, will house the entire HALS segment. These, since again we will be the first Indian company to start this production in India. Of course, with this whole COVID thing, China plus one strategy, we really anticipate that these would be the next growth driver for Clean Science and Technology. Thank you.

Harsh

Understood. That was very helpful. Thank you. And last one thing on data keeping, either you can give it now or you can give it on a separate disclosure that is fine, but we used to earlier give the breakup of product-wise and performance, pharma and FMCG in terms of BHA, Guaiacol, DCC etc. If you can just share that either now or later in a separate disclosure that will be help, that is just to get an understanding as to where the growth has been mainly derived from.

Siddharth Sikchi

Sure, we can do that. Thanks.

Harsh

Thank you, Siddharth and team, and all the very best. Thank you.

Siddharth Sikchi

Thank you.

Moderator

Thank you, sir. The next question is from Mr. Sanjesh Jain, from ICICI Securities, please go ahead, sir.

Sanjesh Jain

Good morning and thanks for taking my question. Few from my side. First, from this new category addition, that is PBQ and TBHQ, what will be the initial response, we seen that it has done very well. So, I think the response has been good. So, what is the opportunity in these products, because one of the co-product which is MEHQ, we already have a global peer. So, is that giving some advantage in initial push up or do we really have some kind of an advantage in those products, in terms of process manufacturing or through a market placement or partnership that we are looking to have in this product, which will give us push for that in FY23?

Siddharth Sikchi

Thank you, Sanjesh. So, let me answer your question. So, you know as a company, when we look at products, we also try and always look at products where in India there is no manufacturer and where the country is dependent on China. So, PBQ is one of such products. We have anticipated that currently PBQ is imported close to 1200 ton per annum in India, the product price is approximately \$30, and typically, it is majorly imported from China, and it goes into agrochemicals.

Now, we are the first Indian company to start PBQ manufacturing in India. What advantages we have is, of course, it is one-stage oxidation reaction, but the quality of the product, the color of the product is significantly important, which I think no other Indian company has been able to get so far. So, we are the first company because of our interesting technology, we have been able to get the right stability and the right parameter for the color, one.

Two, our first initial investment was about 30 to 40 tons per month, which fortunately we are sold out and now, we are doubling the capacities to about 80 to 90 tons per month. With this we hope that we would be able to cater to the Indian requirements, that is second. Third, you know, we have got new customers in Agro space and it is a new market. Agro is a very upcoming field I think, it is also growing significantly and you know, with the new customer, which we have got in PBQ, we are trying to discuss with them newer product opportunities where we can grow in Agro space as well. So, these are some of the advantages we look at.

The second product that you mentioned TBHQ, it is already manufactured by some Indian company. However, it is our focus to remain and become strong and stabilize our business. We already have MEHQ, we have Ascorbyl palmitate, we have BHA with addition of TBHQ that will be another stabilizer and the entire HALS series again as a performance chemical or stabilizer. So, we want to grow our portfolio in these performance chemical business, because now, we understand the business and we like this space. So, we are looking at this in totality. So, these are the reasons why these two products have been introduced.

Sanjesh Jain

That's very clear. Just one clarification, PBQ then goes into the pharma intermediate segment right, not into the performance chemical.

Siddharth Sikchi

No, PBQ goes into Agro.

Sanjesh Jain

No, from our segmental reporting perspective?

Siddharth Sikchi

We will put it as a specialty chemical, goes into Pharma and Agro intermediate.

Sanjesh Jain

Pharma and Agro intermediate, right. And that is the reason why we have seen such a strong growth in that segment on a YoY basis. But I did, if I looked at it sequentially, that particular line segments have come down and we have mentioned that DCC has also done good. So, what are we missing, did Guaiacol did not do so well with this quarter?

Pratik Bora

Sorry, Sanjesh your question, if I may rephrase, you're asking that in performance or in pharma segments, why is there a sequential degrowth?

Sanjesh Jain

Correct, despite a very strong PBQ delivery.

Pratik Bora

I mean, DCC has gone up, there has been a slight degrowth in Guaiacol because Q3 was exceptionally good for us. So, that was a very high-base Q3, but if you look on year-on-year basis, there we have been good.

Sanjesh Jain

That's it. That understanding I wanted. Now, with the MEHQ now with the 50% capacity and I also know that we have increased BHA by 50% still requires a feedstock, so MEHQ as a segment, how should we grow ex the feedstock for FY '23-24, and considering that we already have a significant market share it is fair to assume that a 10% to 12% can still be done in terms of a volume growth in that segment?

Siddharth Sikchi

It should happen, see Sanjesh, whom are we competing with MEHQ is per se today we are competing with Solvay. MEHQ, they produce using hydroquinone, which prices have currently almost doubled to around \$12, whereas MEHQ is still hovering around \$10 to \$11. So, with this, the focus of our competitor is to sell more of hydroquinone in the market rather than getting into MEHQ and this has opened the gate for us to get into some of the accounts, which we were really lacking into. To give you an example, BASF for the last 10 years, we have been trying to get into BASF and we have always been getting the minority portion of their MEHQ purchases. However, this is the first year where we have got 70% of their global demand, and we have got their contract for three years. So, all this has played very well in our favour, and we want to take this opportunity to gain our market share and to get confidence of our customers and increase our market share.

Sanjesh Jain

Great. But HQ going up is not so good news for us from the TBHQ perspective, right?

Siddharth Sikchi

But all our competitors also buy HQ and make TBHQ, right?

Sanjesh Jain

Right. So, we are on the level footing in TBHQ, but we are on an upper footing on a MEHQ, which is a much larger block.

Siddharth Sikchi

As well as BHA, because all my BHA customers today also need TBHQ, okay? Plus, Ascorbyl palmitate is also another product for us. So, we were lacking in this product, and again it is a performance, specialty, stabilizer, which we did not have in our product portfolio. So, with this, we are trying to grow our performance chemical, and again getting into HALS, will further support us and increase our product basket in this performance chemical segment.

Sanjesh Jain

Just one last question before I get back into queue. On the PBQ side, we talked about import substitution and an Agro Chemical Company addition, where we are also trying to increase the basket. Again, it is mostly India, right? It's not an export product as of now for us, right?

Siddharth Sikchi

Today, India is in itself buying 1200 ton per annum. And you can imagine \$30 is the product, dollar is at 77, import duty is at 8%. So, it makes a lot of sense for us to first cater to Indian market. We have exported smaller volumes to Europe, but India would be our prima facie focus in this product, because these Agro intermediates which are made, India is a prominent player.

Sanjesh Jain

Just one, sorry, bookkeeping question. We said the 55% of that power consumption in the plant comes from the renewable resources, right? But then, what is the reason for our other expenses, jumping through sharply on a quarter and quarter, because I saw this should be predominantly because of the power cost, but that comment made me think that again.

Pratik Bora

So Sanjesh just to clarify, our power and fuel costs comprises of two components. One is electricity, where we made that comment that 55% of our electricity serviced by renewable energy and the other is the coal cost, which comprises around 70% of overall fuel costs. In case of coal, we have seen the price increase by 77%, so that has led to power and fuel costs increasing by around 106% on year-on-year basis.

Sanjesh Jain

So, that's mathematical arithmetic. Got it. Now, I understood. Very clear. Thanks Siddharth. Thanks for answering all my questions and all the best for the coming process.

Moderator

Question comes from Mr. Sujit Lodha from Birla Sunlife Insurance, please go ahead.

Sujit Lodha

So, my first question was on the cost side, as you mentioned, that phenol is now 50% of your cost basket. So, is it like say for example, 35% is just COG right now, out of the 17% to 18% would be phenol, is it right or it used to be 50% and now it is higher?

Siddharth Sikchi

No, I think your first assumption is right.

Sujit Lodha

Okay. So, I just wanted to ask how have you seen the inflation in the balance 50% portfolio on the cost side, how is the inflation thing when you compare FY22 versus FY21.

Siddharth Sikchi

See, for instance, all our chemicals are mostly commodity chemicals, methanol, tertiary butyl alcohol, acetic anhydride, and of course, coal. All prices, for instance, if I have to give you methanol, which is a very, very simple commodity chemical, the prices over the last financial year, when I say it is an average price has grown about 50 odd percent. Tertiary butanol which we import from China has increased about 70%. Acetic anhydride, where acetic acid is used as a starting material has grown about 152 odd percent. So, there has been a large, I mean, I'm sure if you track chemicals, you understand that there has been a huge increase in raw material prices of all the basic chemicals and of course, that is the reason why further downstream products have also has seen the increase in prices.

Sujit Lodha

Right. Sir, and secondly on this, while you explained it well that the price hikes will become more gradual, because you don't want to lose your relationship with the customers in the buyer side. Sir, but do we expect to pass on this entire cost, or we expect the prices to normalize, wait for what happens with the commodity and probably then take a call. What is the strategy?

Siddharth Sikchi

Now, we have customers ranging from quarterly orders to half yearly to annual contracts. Ok? So, depending on the needs of the customer, depending on the location of the customers, you

know, there are several factors which come into play when we decide on increase of our prices, which we have done over the past few quarters, that is why our raw material cost is still about 35 odd percent. Even in quarter three, if you see our raw material price has been 35%. So, with this view, we are able to pass on the price. Wherever, we feel there is a real difficulty, where you know, there are customers who are not able to pass on prices to their end customers to give you an example, say a cosmetic cream, where a UV blocker is introduced using our product, if you go to the market, again these prices do not increase every quarter-on-quarter basis.

So, these are some of the special times when we need to, you know help our customer be supportive of them, pass marginal price increase, so that they also remain in the business and this entire chain continues. Because all of us know that this is a very special situation, this particular year, because of these geopolitical tension has been a very special year. So, we don't want that our particular segments completely dry off, because of our little price increase, and fortunately for us, we have a very healthy margins in our business. So, we would like to, you know, help our customer in these times, so that when the times reverse, you know, they will always remember these times and we increase, and have a better business coordination with our customers.

Sujit Lodha

Sure. Sir, my second question would be as you explained that your sensitivity to phenol will obviously be the lowest versus competitors. So, our MEHQ market share how has it moved in the last 3 to 4 quarters, because there the price increase which they would require would be much higher, the margin of safety which they have is much lower. So, heavy gain like significant market share in the MEHQ from our current high number?

Siddharth Sikchi

See, I can only tell you one thing Sujit. We have added 50% capacity, okay. And you will see that we are mostly sold out in that. For the plants which we envisage, we will take about a year or two years to gain the market shares, but because of the last year and the way we have been with our customer, the plant is, you know, running at full capacity then are completely sold out. So, I hope that gives you a clear answer.

Sujit Lodha

And just one small question on the HALS. So, do we have some duty protection benefit versus the current supplier, is there an import duty on HALS, in India?

Siddharth Sikchi

For a product like 770, where India imports close to 3000 tons per annum, the duty is about 7.5% to 8%. And of course, with all these international glitches of shipment, and all these problems, I think a local player would be very, very helpful to the master batches guys and our capacities are going to be closer to 1500 to 2000 tons. So, I'm very confident that we'll be able to garner or get this Indian market very, very rapidly.

Sujit Lodha

Right. This kind of duty benefits will be there for the other line of products, which are expected to launch in future?

Siddharth Sikchi

Some of these products are not imported by India too. Some of the products that are expensive products, which are in specialized polymers, where US, Europe are predominantly very large. So, in these products, of course, the duty benefit will not help. However, those are also the products where the current producers are also very minimal. So being in India, the location factors, our cost of production versus our competitors, here BASF, I think these parameters will help us when we get into those range of products.

Sujit Lodha

Thank you so much, sir. That is all from my side. Thank you.

Siddharth Sikchi

Thank you.

Moderator

Thank you, sir. So, next question from Mr. Ankur Periwal from Axis Capital, please go ahead, sir.

Ankur Periwal

Thank you. Siddharth, you know, you did mention a pretty sharp hike across the key raw materials, you know, over the last year. And, you know, my presumption here is obviously, you know, the other competition is also facing similar price increase. And with our differentiated technology, we probably have an advantage here. So, your comments on the overall competitive intensity, not only in India, but globally, for the existing product range, as well as the HALS part of it, while we have not launched our products yet, but where do you see yourself from a pricing point of view in the newer range of products that we plan to launch next year?

Siddharth Sikchi

The current producer, if I have to understand a BASF as a global producer, I mean, they have the largest market share. Energy prices in Europe have dramatically gone up because of this Russia-Ukraine issues. And they have announced a few times already price increase in entire HALS segment. And I can understand the energy prices have gone up for us also, but not to the extent as it has gone up for a European producer or an American producer. So, this delta will definitely be of very big importance to us. Of course, there were a lot of rumours also in the market, that Germany or Europe in particular will have a lot of industrial shutdowns to first cater to the residential needs of energy. With this, the new, the big customers of the game would definitely want to have de-risking and try to have a source also in India for this HALS segment. I'm sure they will be more than happy to qualify us and make us, one of their vendors for this HALS segment.

Ankur Periwal

Okay, sure. On the existing portfolio, what will be the price differential, let's say our products versus competition, who would have probably taken a much higher price hike versus us?

Siddharth Sikchi

See, I will tell you. The beauty in this segment is that today because we are 70% of the market share, or maybe 65% or 70% of the market share, today our prices is what determines the market prices. So, if I have kept the price of say \$10 or \$11, even my competitor is not able to keep \$15, because it won't work. So, they have to either be closer to mine, or they lose that customer, and this is a well thought strategy we have kept because with our new capacities which have added, I mean, just two months ago, we wanted to get those market share, rather than pushing too much on pricing. And also, with increasing prices, I mean for other commodity chemicals, if you have seen a lot of players either in India or in China have started relooking at these products. Like we have Make in India, I'm sure China would also have Make in China.

So, we don't want to encourage any of these things, because China also is a very important market for us. In our entire revenues, 40% of our revenues come from China, not from one product, through all products. And these are the times when we don't want a newer entrant in this business. So, our prices are in a range where we are still making decent money and where we see our competitor would not be able to make substantial margins. So, we hope to get more market share in this environment.

Ankur Periwal

Sure. That's pretty clear. Thank you. And just lastly, on the working capital side, we had seen a slightly sharp reduction last year FY21, while this time there is an increase is that largely because of, you know, higher Q4 sales here or you know, what could be a sustainable number?

Pratik Bora

Right Ankur. So, the first reason you rightly pointed out receivable days have gone up. That's because of the higher Q4 sales and also because of the sales mix, higher export sales. These are the primary two reasons, but on net working capital, it's almost similar, 56 days last year versus 59 days this year.

Ankur Periwal

Okay. Sure. Thanks Pratik and Thanks Siddharth.

Moderator

Thank you, sir. Sir, we have the next question from Mr. Rhishan Pearwani from JM Financial, please go ahead, sir.

Rhishan Pearwani

Yeah, hi, Siddharth and Pratik. Congrats on good set of numbers despite challenging environment. Three questions from my side, small ones. So, the first is on given our focus is on the aniline going forward, how's the R&D shaping up in the aniline chain?

Siddharth Sikchi

R&D is shaping very well, I think we are getting into very, very interesting chemistry. I think it is not aniline base, it is acetone base. So, HALS come under acetone-based products. If that is the question you are asking. So yes, I mean, acetone-based derivatives, we are working on of course other than HALS, also some interesting products. And the R&D shaping up extremely well today, we have about 50 odd people with seven scientists, and we have three R&D separate divisions. So, we are very, very, very confident of coming up with better and newer products in the next financial year.

Rhishan Pearwani

I understand on the HALS, it is acetone derivative, I was more asking about from the like, you know, coming up with let's say be aniline, diphenylamine, if that is that you're working on. So that was like this starts from the aniline, so that's what I was probably asking to.

Siddharth Sikchi

Oh! Yeah. Okay. So, yes, that is very interesting. Of course, we were working on aniline and diphenylamine-based products and of course leading to phenothiazine. There are certain issues

in phenothiazine is that it is a particular pril form, which sells in the market, because it is a sulphur-based derivative that nobody wants to use powder or flaky product. We were able to make the powder, but we were not successful in making a pril form. However, we are still working on it and trying to see if there is any way where we can try and attain the pril form. The day we are able to make a reasonable sized pril form that, is the point when we can consider getting into aniline to DPA and DPA into phenothiazine because that is also a stabilizer or an additive, which we would really want to add in our product portfolio.

Rhishan Pearwani

Okay. Great, sir. So that's what I was looking for. The second question is on the backward integration, so I'll not go into the product by product. I'll just ask like any plans like to further backward Integrate for any of our RM to complete the phenol chain if you kind of know what I'm hinting for.

Siddharth Sikchi

Yeah, I understand your question. So, it is a little premature to say, of course, we think on those lines as you're thinking, but we have to see with newer capacities coming across geographies, how those are going to shape up. It will also decide our steps, I mean, what steps we should take, we don't want to overcrowd the market with newer capacities, which we think might come up either in India or in China.

Rhishan Pearwani

Understand, sir. And the final question sir, on HALS, you know, can we face, let's say competition from China, or no?

Siddharth Sikchi

There are producers in China. But I think, see for every product, there is a competitor in China. I mean, when we started even MEHQ was in China, Guaiacol was in China, 4MAP was in China. All our products, PBQ today, which we manufacture, DCC, which we manufacture, everything comes from China. So, there is a competition in China as well as in Europe. However, the advantage, I mean, is we have learned how to compete against China throughout the last 15 years. And I'm quite comfortable in saying that, because of these current geopolitical tensions, plus these 77 as \$1 rate, and of course, the import duty, these are the some of the parameters which will be very helpful, if a producer comes up in India.

Rhishan Pearwani

Understood, sir. That's it from me. Thanks for answering my questions, and best of luck.

Moderator

Thank you, sir. Our next question from Mr. Amar More from Alpha Accurate Advisors, please go ahead, sir.

Amar More

Sir, thanks a lot for the opportunity. My questions have been answered. Thank you.

Moderator

Thank you. The next question from Mr. Abhijit Akella from Kotak Securities, please go ahead, sir.

Abhijit Akella

Yeah, good morning and thank you. Just wanted to check, you know, whether there's any margin outlook we can provide for say FY23, now just given the input cost scenario, and the fact that we are sort of focusing more on wallet share gains rather than on margin protection at this point. So, any rough outlook that you might be able to provide. Thanks.

Siddharth Sikchi

These are forward-looking statements we would like to avoid, however, to be very honest with these geopolitical tensions, how these things are going to shape up, even last year, I'm sure none of us would have anticipated where all this will lead to. So, these are very, very unforeseen situations, very, very special conditions. Of course, I can tell you, the business looks robust for us. We are seeing volume growth across all our segments, but it is very difficult to predict for me you know, what will be the raw material prices going forward in the next three months, will the world change. All of a sudden, all the raw materials will smoothen down, again come back to the normalcy or there will be furthermore tensions going across the globe, more countries will become part of this Russia-Ukraine thing, will the oil prices again further increase. You know, there are so many parameters, which today I'm sure even you and I cannot answer. So, it is very difficult to predict in such special circumstances.

Abhijit Akella

Okay. Understood, sir. Although if we take a slightly longer-term perspective, like said 3 to 5 years, once the new products are optimally ramped up for us. Would we expect the margins to sort of return to, you know, the levels that they have been at in the say, you know, in the previous year?

Siddharth Sikchi

The previous year would be very a different year. See those were really the COVID year where the prices of raw materials really went down dramatically. And that was also a very special situation. So, I particularly feel if you look at our numbers, leaving the FY21 numbers, if you look at our FY20 numbers, or if you look at our FY22 numbers, where you've seen our RMCs have been closer to 35%. I'm sure you would appreciate that. I mean, compared to the FY20, FY22 was a very challenging year for an entire chemical segment. I'm not talking about any other segment per se in a chemical segment. Despite of all those volatilities, despite of the ramping up our new capacities, we have delivered a 35% growth year-on-year and have been at an RMC of about 35% and a PBT of about 40%, which I think we are very happy to be at this level. Even I mean in these circumstances, and I'm sure you will also appreciate it.

Abhijit Akella

Sure. Understood. Thank you so much and wish you all the best.

Moderator

Thank you, sir. So, we have a follow up question from Mr. Sanjesh Jain from ICICI Securities, please go ahead.

Sanjesh Jain

Yeah, Thanks. Thanks for taking my question again. I wanted to understand a little bit more on the MEHQ and the market share gain we are talking, and the China angle in that. First, we are already at 65% to 70% market share, as you told earlier, and we have increased the capacity by 50% which is good again. Today because we are at a better costing or better manufacturing process, so we should gain a significant market share that means, from there onwards the growth will be restricted to the industry growth, which is close to 3% to 4%, is that understanding right. Number two.

Siddharth Sikchi

Let me answer one question at a time, Sanjesh. Typically, we don't like to answer on product-to-product basis. However, since you've asked this let me explain you. So, when any chemical company builds a facility, it is typically built for a 3-to 5-year horizon okay, because when we anticipate that the growth will be say 5% or 7%, you know, the plant cannot be made every year looking at 5% to 7% gain.

So, when a facility is made by us, it is obviously looking at a 5-year horizon number one. Number two, MEHQ has an internal consumption for us in BHA, where it is a growing market for us. And these are the two reasons why we feel that these capacities, I mean, that is the reason why we

have added these capacities. And of course, we did not anticipate when we started the construction of this facility, that the prices of the starting material that is hydroquinone will increase to \$13. So, that just happened by chance, but always the facility is built with a five-year horizon on how the market scenarios will happen. And we want that there should not be shortages of our product, because that leads to competition creeping in.

So, we would always want spare capacities to be there so that any such event occurs, when there is a shortage in the market, we are there to fill that gap. And because these events you know, they're not announced prior, this is just by chance it happens, you should be there to grab that opportunity.

Sanjesh Jain

Got it. I understood that some of the MEHQ will go into the downstream of BHA. Now, because we are now 70% to 80% of BASF and we are already there on the other customers and BASF being one of the large consumers it is no doubt that our market share will significantly ramp up from where we were say at the FY22 level. That means we will become an industry as a whole in this particular segment. And hence, we can address growth industry rate, that was the simple understanding for me.

Second, on the China to the MEHQ is an increase in the cost for the Chinese manufacturer, while we continue to hold on our with a very restricted price increase, can China look at this product on the ADD side and impose or is there any risk of putting an anti-dumping duty on the import from the Clean Science to China, do you foresee any of those kind of risks?

Siddharth Sikchi

I will tell you, see what is the basic principle of anti-dumping, the basic principle of anti-dumping is that I am selling at a higher cost, say in Europe, US, South Korea, Japan and I am selling at much lower price in China. This is a basic thumb rule of an anti-dumping. Okay. If you see the way we have, of course, we understand this problem. If you see our pricing, sometimes our prices in Germany or in Europe or in US are sometimes lower than the prices we offer in China. So, this risk of anti-dumping would not come, and it is because of our technology advantage that I am able to offer these prices. It is not that I am deliberately dumping my product into China. And we have a basic costing mechanism, which any scientists would understand that if I take anisole and we make MEHQ, there will be a price which will be different than anybody making from hydroquinone route.

Sanjesh Jain

No, I have a similar situation with another chemical where India has put an anti-dumping on the Chinese import, while Chinese used to manufacture in a different process, so they had a cost

advantage, yet India put the anti-dumping to protect the domestic production. There is a case which say that if there is a potential difference at the companies have put historically ADD, at least I know one of those products where the situation has happened. So, my understanding of the ADD was that more to protect the domestic manufacturing and none of the papers for the ADD have looked at the way they have discussed in length about the manufacturing process of the company, which they are evaluating, but that again driven on what kind of reply do they get.

Siddharth Sikchi

There is a lot of disturbance Sanjesh in your line. Currently, if my understanding is right, the major share in China market is taken up by Solvay and us. There is no real, very large producer of MEHQ in China, who would move for this ADD kind of process is what my understanding is. However, I explained to you that because we have also applied an ADD on DCC which was coming from China and we have understood, while we had to prove to the Indian government, that the prices which Chinese offered to the Europeans and American is far higher than the price they offer in Indian market, when there was a difference and that is why we were able to get anti-dumping on DCC. In similar way, I'm sure even the Chinese would have to prove that our prices in other parts of the globe is far higher than what we are giving it in China.

Sanjesh Jain

Fair enough. That explains very clearly. Thanks Siddharth.

Moderator

Thank you, sir. Next question from Mr. Rohit Nagraj for Emkay Global Financial Service, please go ahead, sir.

Rohit Nagraj

Thanks a lot for the opportunity. So, first question is in terms of HALS, so you indicated that we'll be coming up with the capacity 2H. So once a capacity is commissioned, immediately we'll be able to start our sales of the product, or we first have to go for validation of the product from the plant?

Siddharth Sikchi

Of course, there is always a validation process. You get product for pharma, Agro, even for masterbatches, there is always I mean everybody wants to have a sample before they buy, you know, commercial lot.

Rohit Nagraj

Right. So, effectively our commercial sales will start from FY24, is that right understanding?

Siddharth Sikchi

No, we are really hoping this year, so basically 770 will be used for masterbatches. There the lead times or validation time, because it does not go into pharma or food segments, it goes into masterbatches, here we expect that the approval time would be relatively shorter compared to a pharma product. So, we really anticipate that Q4 should be the first quarter when we should anticipate some sales into these 770 and 701 products

Rohit Nagraj

Right. Got it. The second question is in terms of exports, so 70% of our exports, how much of these are long-term in nature, particularly from the point of pricing perspective and given that normally, these are calendar year contracts, so is there any pricing clause to change the prices on a quarterly basis also?

Siddharth Sikchi

We have multiple ways how our customer books orders with us, very rare is a year-old contract, then comes the half yearly and then comes quarterly, and of course in India is a monthly basis. So, it's a mix of customers how they like it. And we are really okay dealing, because if you do a yearly contract, sometimes we get the biggest portion of their business. And we are assured of a particular business for the entire year. Sometimes for instance, the Chinese market, they don't like to book anything for more than six months. So, they prefer to work on a quarterly basis. So, we are okay with quarterly basis. So, it's really kind of customer business, which we are doing into so there is multiple ways to look at it.

Rohit Nagraj

Right. Sir, just one last clarification on the demand front. So, because of the current environment in terms of a geopolitical environment, are there any deferment of contracts or orders for us, or simultaneously, probably a benefit because someone else is having the challenge.

Siddharth Sikchi

That's what I mentioned, if you have a European competitor like we have, their energy costs have dramatically increased over the past few months. So, that has given us an advantage where we are competing with them. So, of course those work in our benefit and of course, with Make in India say in a product like DCC, where the world was or a PBQ where we were dependent on China, with all these logistics issues with dollar touching almost 77 to 78, it has helped us with

Indian consumers looking at Indian suppliers for these products where they can book us, and we can supply them within a week's time.

Rohit Nagraj

Sure. Got it. Thank you so much for all the answers and best of luck.

Moderator

Thank you, sir. Ladies and gentlemen, that would be the last question for this conference. I would now like to hand over the floor to the management for closing comments.

Siddharth Sikchi

So, thank you so much to all of you for taking time out understanding, reading our results and asking us very interesting questions. I hope I'll again meet you guys next quarter with better performance and better result. Thank you so much. Have a good one.

Moderator

Thank you, sir. Ladies and gentlemen with this we conclude our conference for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may all disconnect your lines now. Thank you and have a good day everyone.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.