INDIA GLYCOLS LIMITED

ISO 9001
ISO 14001; ISO 45001;
ISO 50001

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23rd November, 2021

The Manager (Listing)
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 500201

The Manager (Listing)
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East)
Mumbai – 400 051

Symbol: INDIAGLYCO

Dear Sirs,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Q2FY22 Results Conference Call

Further to our letters dated 12th and 16th November, 2021 and pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Results Conference Call for Q2FY22 held on Tuesday, 16th November, 2021 is attached.

The same is also being hosted on the Company's website at www.indiaglycols.com.

This is for your information and records please.

Thanking you,

Yours truly,
For **India Glycols Limited**

Ankur Jain
Head (Legal) & Company Secretary

Encl: A/a

"India Glycols Limited Q2 FY-22 Earnings Conference Call"

November 16, 2021

MANAGEMENT: **MR. SUDHIR AGARWAL – EXECUTIVE DIRECTOR**
MR. RUPARK SARSWAT - CHIEF EXECUTIVE OFFICER
MR. ANAND SINGHAL – CHIEF FINANCIAL OFFICER
MR. SANJEEV GURWARA – PRESIDENT – MARKETING
MR. SK SHUKLA – HEAD –LIQUOR BUSINESS
PROF. DR. R.K. KHANDAL - PRESIDENT, R&D AND BUSINESS DEVELOPMENT
MR. ANKUR JAIN – HEAD (LEGAL) AND COMPANY SECRETARY

MODERATOR: **MR. SANJAY JAIN – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to India Glycols Limited Q2FY22 Earnings Conference Call hosted by ICICI Securities Limited.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference calls, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjay Jain from ICICI Securities. Thank you. And over to you sir.

Sanjay Jain: Good afternoon, everyone. Thank you for joining with us on Indian Glycols Limited Q2H1FY22 results conference call. We have India Glycols management:

Mr. Sudhir Agarwal – Executive Director

Mr. Rupark Sarswat - Chief Executive Officer

Mr. Anand Singhal – Chief Financial Officer

Mr. Sanjeev Gurwara – President – Marketing

Mr. SK Shukla – Head –Liquor Business

Prof. Dr. R.K. Khandal - President, R&D and Business Development

Mr. Ankur Jain – Head (Legal) and Company Secretary at India Glycols Limited

I would like to invite Mr. Rupark to initiate the proceeding with his opening remarks, post which we will have Q&A session. Over to you Rupark Ji.

Rupark Sarswat: Good afternoon to everybody here who has joined, thank you for joining this call. And I hope all of you are doing well. It is much better from a COVID perspective. And we all hope that it kind of remains that way.

What I will do together with my colleagues is give you a brief overview of what we presented. Our apologies that you may not have got had enough time to go through the presentation, we had a slight technical glitch, and there was some delay in the presentation getting uploaded. I am told though it was available about 10 minutes ago on the exchanges as well.

Coming to the performance of the quarter, it is important to note that in this quarter, we have undergone a transition and that is that in this quarter the EOD and the Formulation business is no more reported as a part of IGL, but is reported as under the Joint Venture. So to extent the turnover and the numbers with respect to the EOD business for this quarter are not there and it is important to kind of keep that context.

Overall performance if you see our gross turnover is at Rs. 1695 crores which is up 10% our net turnover at Rs. 780 crores which is up 7%. And as many of you already know, there's a big difference in the gross turnover and the net turnover for IGL it is because there is a very heavy Excise duty for the liquor business that we have which is of the order of 600% to 700%. ROCE is Rs. 75 crores which is up 16%. The EBITDA margin is at 9.55% and the PAT at Rs. 37 crores is up 40% for this quarter as reported.

As I mentioned in these numbers, it is without the EOD business being part of IGL and considering that you would see that this has been a very good comeback and a strong performance for the business in the 2nd Quarter. You would see that the margins are at 9.55%.

Another point I would like to make for is that whilst the EOD sales are no more part of IGL's reporting, one of the key raw materials or the key raw materials for the EOD business which is ethylene oxide is still supplied by IGL and therefore, that sales has come as a part of IGL sales. However, it is also important to note that we make relatively nominal margins on the transferred ethylene oxide that is how the agreement is structured. So, in order to see the real value of the chemicals business to us, you need to kind of in your mind, add back the ethylene oxide EBITDA profit to the business, which I have not done here. To that extent the reported margins are somewhat suppressed, and you will see the benefit coming more in terms of the PAT.

And now looking at the performance for continued businesses, you will see that the gross turnover is up 24%. And the net turnover is up 39% at Rs. 780 crores. As I said it is up 39%, because now, for the purpose of looking at continued businesses we have removed EOD business from both the quarters, that is quarter for the last year as well as quarter for this year. And the PAT of course is at Rs. 37 crores up 87%.

Looking at the half yearly performance as you would have the slide the gross turnover at Rs. 3561 crores is up 46%. The net turnover at Rs. 1644 crores is up 48%. EBITDA at Rs. 152 crores is up 5% and the EBITDA margin at 9.87%. The PAT reported is Rs. 249 crores up 707%. But such a huge jump in PAT is mainly because it also includes the slump sale profit that arose because of the JV formation.

So all in all, good two quarters and a good first half for our businesses and I will talk a little bit about what has driven the performance. In terms of key highlights for the quarter the Joint Venture with Clariant has been established successfully and very smoothly without any disruption to the business. Of course, there was a couple of weeks of postponement for some orders, but really no loss of business or any major disruption, which is a very good thing.

As we had updated you, we had sanction projects for putting up grain-based distillery projects in our Kashipur and Gorakhpur plant. Those projects are ongoing, and we expect the plants to be commissioned by March and April 2022 respectively. We are also happy to share as you may know that the company's long-term rating has been upgraded to ‘A’ with a stable outlook.

The performance for this quarter actually, to a large extent in the first half has been led by an excellent performance by bio-based specialties and performance chemicals, both in terms of sales as well as EBITDA as you would see. As has not been a surprise, sharp escalation in feedstocks, freight prices, packaging and energy has been a bit of a dampener and they have posed some headwinds, which have to some extent compressed our margins. But given all of that, it's a reasonably good performance that we have to report in this quarter.

Let me spend a little bit of time explaining to you certain macro factors that have been impacting our industry. Now, these macro factors are not only important from the point of view of tactical planning and strategy, but even longer-term strategic actions that companies like us will take.

So, there are six factors which are important, which I will very quickly cover. The first three are more fundamental and the next three are to some extent related or are also an outcome.

One is the significant demand surge that the world saw in various parts, including India, post-pandemic and the world was therefore not prepared in many ways whilst it presented an opportunity, but you saw that there were issues with respect to supply chains getting disrupted, as well as supplies of coal, etc. which impacted us. There has also been visibly, a number of areas where climatic changes are visible, which has impacted and will continue to impact several things. Now, for example, in India, in the Central and Eastern part of India, you saw probably the worst rains in the last 127 years, which impacted our coal situation and therefore the coal crisis in India.

You may know that Europe actually has a significant renewable energy consumption. And a lot of that energy comes from wind and hydro energy. And both of these were pretty much low in their generation. So that also added up to the global energy crisis. You may also know that the same thing was happening in Latin America where there's a lot of hydro energy and there was a drought and therefore that energy came down which all is not only impacting our energy prices, but I am also talking about a driving factor for businesses, particularly the ones which have positioned themselves based on sustainable ingredients.

And the other of course, is the big push for sustainability and green transition. This has provided opportunities, but it has also created hiccups. So, as you know in India, there is a push for increased blending of ethanol in petrol. Similarly, other countries in the world are going through this transition and sometimes it has been a choppy ride where you people have pushed in renewable resources and Germany, for example, has said that they would not go to nuclear energy, but we are probably not as ready to completely depend on renewable or sustainable energy. So that sustainable transition also created some hiccups.

The impacted factors, of course, are the sharp rise in commodity prices and as we have seen things that impact us steel prices, for example, were up nearly 40% impacted our projects. Coal prices on a on a yearly basis, not average over a period of one year roughly went up by about 80%. Ethanol which is a very important feedstock for us the prices went up compared to November last year by roughly 60%. And acetic acid for example is roughly up 100%.

So, these are some of the factors which were impacting our business. But what is good to see that is we have been able to continue to grow our business and grow our EBITDA and profit lines as well.

So that is a quick summary that I had, I will request my colleague Anand Ji to give you a quick recap on the financial summary.

Anand Singhal: On Q2 and half year '22 results is already there with all of you. And Rupark Ji has already covered the key highlights of the results. But just to give you the brief highlights and the impact on the profitability regions the good demand, particularly in the bio-based specialty and performance chemical during this quarter as well as the half year, the impact of the increase feedstock, energy, freight and packing costs. In all the sectors the cost has gone up while the company has been able to reduce its financial cost due to the payment of the term loan and the reduction in the interest rates. So, this is what is the key highlights. The results are already with us. So that's why I am not covering the numbers. But if anybody has any specific questions, then I will certainly take up.

Regarding the cash flow, although we are generally not sharing but this time we are sharing because there was some query on the negative cash flow just to update that we have received Rs. 451 crores from the bio-EOD sale out of which Rs. 302 has been paid for the term loan and the reduction of fund based working capital limits. While the balance of Rs. 149 crores, we have utilized for the payment of the LC creditors, which has been largely in the cash flow as the creditor's payment. If we take that into consideration, then for the quarter or for the half year, the cash flow is positive by Rs. 146 crores. So just to brief on the cash flow that's why we are covering this cash flow this time in the half year.

Regarding the segment wise revenue, the 71% in the last year has come from the chemical while in Q2 '22 the revenue is still a 71% despite the EOD sale is not there in the 2nd Quarter, while in the half year, yes, there is some impact on the chemicals from 69% to 75%. Rest of revenue generation from the other units is more or less same and not much impacted.

So, this is revenue bifurcation segment reporting is already there with all of you. So that's why I am not covering accepting that all the segments of the company, the sale has gone up while the profitability in the potable spirit segment and Ennature Biopharma segment has come down due to increased cost of the raw material and the utilities.

Rupark Sarswat: Yes, so I can just add a few comments on segmental performance, just to let you know what the drivers has been. As you can see, once again, the bio-based specialty and performance chemicals had the strongest comeback within terms of revenue as well as EBITDA. And the potable spirit segment, it is actually very good to note the continued top-line growth. We all know that packaging and ethanol costs are up. We believe that this is somewhat a short-term phenomena and we will see both margin recovery as well as the cost or softening in due future. So that would hopefully be better.

In terms of the key drivers. We had excellent sales in terms of glycol ethers and acetates which were driven by robust demand both for domestic and export markets. One of the factors being that the prices for butyl and propyl glycol ethers were high and therefore we were also able to position the glycol ethers that we had to sell in this market. We also did take some action to do some internal debottlenecking so that we could sell some more of these more margin generating products.

The glycol sales have been kind of mixed. The good thing for us is that we continue to see traction for bio-MEG, particularly in the Southeast Asian markets like Japan and Taiwan. However, the bio-MEG sales to Coca Cola has been sliding down as we had mentioned to you earlier. And that is mainly because they have been trying to balance their carbon footprint portfolio by also adding recycled PET.

As far as the ENA or extra neutral alcohol sales are concerned, they were impacted adversely because last year, we had a significant increase in the ENA sales because of the sanitizer's requirement.

The guar gum business for us has been good in terms of volume as well as value growth. And we continue to see some demand for oil field applications and several projects are in progress in Middle East and other parts of the world.

The gases business has also continued to grow, we had the record production of oxygen. As you know, the gases businesses kind of bolt on adjacent business to us it is because we produce it as a part of the process. So, it's relatively small. But the thing is that the Government has capped the prices for medical oxygen since August '20. So, the kind of realization that you would have otherwise had was not exactly seen.

Just a little bit of commentary on the potable spirits business. In terms of IMFL, there is a change in the excise policy in Delhi, which we think will help us to continue to grow our business. We see good demand for some of our products like Amazing Premium Vodka, Soulmate Whiskey, and we expect that this segment will continue to do well and deliver good growth for the year. However, as I have mentioned, we have concentrated and made sure that we continue to get the top-line growth, but margins have been under pressure. As I mentioned, the ethanol prices and costs for example are up as of as high as 60%.

On the branded country liquor segment, we got a good increase in volume again, margin pressures have kind of dampened or brought our EBITDA down though. But that's also something that takes time both in terms of cost readjustment and also getting price increases in this segment, which is to a large extent controlled by the Government.

The Ennature business on one side, the Thiocolchicoside sales were not that good. But the good thing is that we've got good growth in the nicotine API segment. So that's a high-level commentary on some of the drivers for the growth and the performance in this quarter.

Once again requesting Anand Ji to talk about some more financial slides.

Anand Singhal: Regarding important ratios, the debt equity excluding EPBG, has come down to 0.43 during this half year vis-à-vis 0.76 in the last year. Debt equity ratio with EPBG has come down 0.63 vis-à-vis 0.99 last year. The FACR has improved to 3.18, TOL/TNW has come down to 1.69. The interest coverage issue is just reaching about 4, now it is 3.93. And further the current ratio has reached to 1.08.

Apart from this, as our CEO has already informed that the India Rating has upgraded our rating from '–A' to 'A' 'Stable.' So, this is what is the important ratios. And now over to Rupark Ji.

Rupark Sarswat: I do not have anything else to add. There are a few slides on company overview which you already have, you can go through. We have already presented them earlier as well. So thank you very much for your time and we are now open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question-and-answer session. The first question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead

Rohit Sinha: A few questions from my side first of all, if it is possible, how has been our overall volume growth and value growth in this quarter in each segment, if it is possible to share.

Anand Singhal: I will cover the main segments particularly the glycol and the alcohol segments. Glycol, last year we did about 47,908 tonnes of glycol sale. For the half year we have already done say about 24,808 tonnes. So, we are more or less done about 50% as compared to last year. Regarding the glycol ether, we have done a sale of 27,858 tonnes in the last year, while in this half year, we have already achieved 19,345 tonnes. So, we are far ahead as compared to the last year.

Regarding the alcohol potable segment, we have done say about 176,274 KVL, in last year, while in the six months we have already covered about 100,904. So, in alcohol segment also we are far ahead. So, these are the main quantities, or you can say the sales quantity which we have covered which we have already achieved in first six months.

Just to add one thing, that last year there was no EO sale but this year the JV we have sold about 9727 tonnes EO to JV also, but this segment is totally new segment for us, because in this quarter we have done this much of sale to JV.

Rohit Sinha: That EO volume is included in this figure what you have shared, right?

Anand Singhal: EO sale is for the first time in this quarter. Yes, this is the part of the chemicals, correct.

Rupark Sarswat: At the same time, the EOD and formulation sales obviously is not there for this year which was there in the Q2 of last year. That has been replaced partly by EO sales.

Rohit Sinha: My second question is on the margin side and how we should see the margin profile going forward especially with this rising crude oil prices and in the spirit segment without --

Rupark Sarswat: So, as you know, right, we are in the speculative domain, but nevertheless, we have an estimate or a view and that I will state. See, we believe the kind of commodity price increases that have happened are unprecedented and these are not systemic structural changes. And so, there has to be a readjustment both in terms of ethanol prices as well as packaging material prices as well as some point in time in the supply chain disruptions, which have also caused the increase in commodity prices.

Now, we do not know how fast that will happen. But we believe that in the next two or three months and beyond, we should be seeing softening of prices. It is very difficult for me to kind of imagine that 50% to 60% to 70% increase in commodity prices across is going to be sustained for a long period of time.

Anand Singhal: And just to add into this Rohit, since the sugar mill production has started, so we hopefully can hope rather that the molasses and the alcohol prices will slightly come down. But let's see what happens.

Rupark Sarswat: Energy prices will definitely come down. You know, coal is not because India has less coal, it is because we just can't have enough coal available with roughly a 24% surge in terms of the power demand from coal. And we didn't import it because imported coal was very expensive so a number of factors that will certainly come down there's no doubt about that.

Moderator: Thank you. The next question is from the line of Nitin Awasti from InCred Equities. Please go ahead.

Nitin Awasti: So, I would like to understand something very basic. So almost all of your products be it alcohol or the chemicals that you produce will have a feedstock, which will either be ENA or ethanol. So how much ENA or ethanol do you use on a whole to make your products? And how much ENA ethanol do you produce? So, am trying to understand what is the portion you buy from outside?

Rupark Sarswat: Yes, so I will also take help from my colleagues. But just to give you an overview of the business and the dynamics of alcohol. See, we have two potential sources of ethanol. One is molasses that we can manufacture in-house, and another is imported ethanol that we import which is corn based on the U.S. mainly. Depending upon the prices, we have changed how much we make and how much we buy.

And last year, for example, it made much more sense for us to import ethanol so at least for the chemical segment as high as 95% of ethanol was imported. But for the liquor segment, we do not use imported alcohol we use molasses-based ethanol that we produce our demand by grain-based ethanol from the market.

Going forward apart from the options of import or molasses as you know, we are also putting up grain-based distillates. So that creates more options for us both for our potable spirits that helps us hopefully reduce our costs as well because we are buying some grain-based ethanol that will come down. And also allows us to play with the ethanol dynamics much more if for example, imported ethanol prices are much higher, which is the case right now for example, and grain-based cost is lower, we could divert at least some of it for that use. But in terms of numbers, let me ask my colleague Shukla Ji to kind of give you --

S.K. Shukla: See we are the biggest the alcohol consumers in India and approximately 16,000 tonnes per month consumption of alcohol for the manufacturing of our chemical products. Besides that, we are using almost 55 lakh litres of ENA for our potable liquors. Some of them are the grain based and majority of the alcohol is from the molasses based.

See because of the late rains, in the highest sugar producing state like UP and Haryana, the crop is affected and sugar mills which are generally used to start in the month of October, which likely to be starting they have started on the first week of November. So, we are hoping the good the availability of molasses from the first or last week of November. That will be certainly comfortable about our requirement and not only to requirement but also, we are hoping reducing the price of the basic raw material.

Nitin Awasti: Once your own distilleries come up how much of this requirement would be met rough percentages, by those distilleries?

Anand Singhal: Means you are talking about the grain distillery?

Nitin Awasti: Yes.

S.K. Shukla: See, approximately 40% requirement will be met by this the grain distillery. And we have certain commitment of supplying up the ethanol. But by and large we will secure 40% in the next financial year, probably start of next financial year from the generation of our grain-based ethanol.

Nitin Awasti: Now given this and given where we stand today as a country and how the ethanol blending program is happening and most of the sugar companies are now, whoever produces molasses is going to hold molasses and try to convert it themselves into ethanol and sell it to the Government and because that's quite profitable. Wouldn't it be more prudent to go out there and setup enough capacity to have 100% captive ENA ethanol supply --

S. K. Shukla: We are on way but right now, I can't comment the timeline, but we are thinking in that line.

Rupark Sarswat: Yes, we need to look at the dynamics very carefully then plan in terms of how much of more capacity will be set up, which is grain based and we will continue to evaluate based on how the blending program also is taking off.

Nitin Awasti: Why do you say that you require more time and more data, isn't the data quite clear and evident in front of you right now. And aren't the prices moving exactly how the data indicated they would move. Why this question is very important and why I am failing to understand this is because you are an end user of ethanol, and you being in industry, which is the end user of ethanol and you have this technology know how to produce it also. And now the Government is giving you an opportunity to setup those plants. So, why not completely integrate? And what is missing, like what is the thing that I am missing right now that you know the prices of molasses will crash or ethanol will crash in the future, which the company is indicating?

Rupark Sarswat: No, the thing is that we will also continue to look at the opportunity of buying ethanol if it makes sense. See, ethanol is three different purposes. And there is a three different level of realization that happens there. One is for potable spirits where we only use either our own manufactured or purchased grain based, that of course will be 100% in-house, because we will be producing molasses-based as well as grain-based ethanol.

Then there is ethanol that you sell to biofuels. Now whilst there is an expectation, there will be a huge requirement of ethanol for biofuels, remember, it is something which needs quite a lot of change in the country as well, because right now we are at something like roughly 8% blending. The existing vehicles in the country can go up to 10% blending without much problem. But the moment you start to go beyond, E10 to E20 blending, you will need to make modifications, because otherwise your rubber and plastic parts etc. start to wear down. So, we need to see how that is picking up, and we will keep the option open up also if imported or ethanol is cheaper for us to buy we can always buy that.

Another thing is you are making the right point. We have already sanctioned two projects. And this is something which is an ongoing discussion in our leadership team to see when and how much we need to invest for more. And as our thinking is a little more refined and we have clarity, at the right point we will share as well.

Nitin Awasti: So, just from our discussion, the point I got to take away, and I would like to clarify before I take it away, so that there is no confusion. That potable spirit will be 100% made by our own produced ENA.

S.K. Shukla: Yes, approximately 97% to 96% because in UP where is our largest stake of country liquor and approximately our share is around 25% to 26%. So, in which we consume around 40 to 45 lakh litres of ENA in every month. For that Government is assuring the availability of molasses. Government is already keeping the provision, the policy to reserve the country liquor molasses. So for that we are very much sure that this molasses will continue and rest 3% to 4% would be buying from the outside the State, grain-based which will be already eliminated once our production will start.

Nitin Awasti: So, can we assume, or can we look forward to margins in this segment or at least for the potable spirits, given that you will completely backward integrate. And the rest of the molasses will be absorbed by the Government like you said. Can we expect the EBIT margins to go closer to 27% to 30%?

S.K. Shukla: So, right now, we are hoping so, but once the things will be normalized because as you know this month is very crucial as for availability of the raw material for the distilleries. So, we are hoping better margin from the month of December and January.

Rupark Sarswat: And a couple of factors, which if they move in the direction that we are hoping. One of course is we would see softening in hopefully ethanol prices. Second is having put up our own grain-based plants we have an option of using it in-house which will help recovery of margins as well. So, both of these factors, if they move the way we are expecting, yes, you should see margin improvement.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Firstly, looking at the business model and the current vagaries in the commodity space, how keen are we that these margins are sustainable. And even there is a scope for improvement in margins going forward, just looking at the sustainability part of the story, as you were telling that one of our MNC player has also reduced the offtake of our product, because of ESG and other factors. So, if you could give us some understanding on how sustainability and the improvement in margins can happen over a period of time.

And, on the power and fuel mix parts, you were telling about the imported coal prices being higher and that impacting the margins. So, over a period of time, what are the steps we are taking that will be contributing to the margins going forward.

Rupark Sarswat: So first, let me talk about the second point that you raised, which is imported coal prices being higher. you picked up one part of what I said which was impacting India coal prices. India coal prices went up because of a couple of factors, 1) Demand surge in terms of power which was 24%, higher than last year. And most of the power in India 60%, 70% if I am not wrong comes from power-based fuel plants. So, the plants or the supply chain had not stocked up that much inventory and coal takes time to mine and then bring it here and so on.

2) The other factor, which coupled with this caused a lot of disruption is that in the coal mine areas of Central and Eastern India, as I mentioned to you, there was probably the worst flooding in the last 120 years. So even the process of getting coal was hugely disrupted from these mines, the roads, the mines themselves.

3) And the third factor, which you talked about, was generally India also buys a lot of coal from outside and particularly from Indonesia. And because of the global energy crisis, the Indonesian coal prices had gone up by as high as 300%.

So, nobody had imagined that all three things will go wrong at the same time. And therefore, the Indian buyers of imported coal had stopped buying and had reduced the stocks of that. All the things together led to a surge in core prices in India and a big supply issue, which fortunately, has been by and large, resolved by no major disaster. We know that the coal inventories at power plant came to very, very low levels of one to two days. But those times are over we are already on the recovery path.

Saket Kapoor: So, my basic understanding is about the sustainability part of the earnings and what should investors be looking forward going ahead. And firstly, I would like to congratulate also on these segmental revenues using the different ways of reporting the numbers. So, thank you for the same that gives more clarity. And if on the biopharma part also, if you could explain what is the potential and the reasons why we reported lower numbers on that part. What big opportunity, is it going forward? How big we can grow there and its contribution to the top-line and the bottom-line?

Rupark Sarswat: So, you are talking about margins of a particular segment or overall?

Saket Kapoor: Yes, I am talking about, firstly the margin for the total entire basket, what steps are we taking to improve the margins? Because when we compare your September '20 numbers, and the September '21 numbers, they are almost on a similar trajectory, although the contribution from the performance chemical has improved significantly. And there is a downward trend in the contribution from the potable spirit segment as you have articulated it in your opening remarks.

So, going forward, how are things going to take shape, if we take the H2 and our preparation on the same. And secondly, it was about the biopharma space, what is the potential of this segment going forward? The margins are on the higher side. But this quarter they have reported lower numbers. So that was my understanding that turnover has gone up, but the margins are on the lower side.

Rupark Sarswat: So this was right in my opening remarks that we have done very well in terms of top-line, but we don't seem to have done as well in terms of the EBITDA growth, there are a few factors. One factor was yes, you are right. For example, ethanol and packaging material prices, which impacted the potable spirit segment very highly. The top-line potable spirits have been growing very well, which is roughly a 21% growth. But the contribution actually came down by something like 30%. And I believe that a large chunk of this margin will get recovered because it is based on what energy and ethanol and packaging material prices, which are kind of an all-time high. And the general consensus, I have no authority to conclude that the general consensus is that these prices will come down. These are not the sustainable commodity prices, that is as far as potable spirits is concerned.

As far as the chemical business is concerned, which is the biggest one for us, you saw that our revenue as well as EBITDA actually went up very well for the first half, with our revenue going up by something like 60% and our EBIT margins going up by roughly 100%.

One factor that you need to keep in mind, I mentioned that before that with the EODs and formulation business going to the JV, our EBITDA margin percentage, obviously, as you people had expected, it has impacted it adversely at the EBITDA level. But where has it impacted us positively, it has impacted us positively at the PAT level.

Now, we had something like a Rs. 700 crore good margin business, which has become part of the JV. What we are doing is sell something like Rs. 300 crore worth of ethylene oxide to them which is only a very nominal margin. So, from a percentage point of view, you will see that this actually is a factor, which is depressing margin. But a good way to see and I will not get into those numbers of this call, is actually to add back what is the value which is coming from the EO that we are selling to the JV, which comes at a line below EBITDA.

So, I responded to you on potable spirits. And as far as the general energy and economic costs are concerned, we believe that they are going to soften and help us improve our margins. And as far as the margins based on bio-based products are concerned, my response to that is look, this is a steady transaction which the world is going through. We have seen increased transaction for bio-based products, as I mentioned to you that our bio-based glycols where one of the MNCs for Coca Cola used to be something like 80% of our bio-based MEG sales, is now possibly about in the range of about 30% of sales, because we have a number of smaller customers who are buying bio-based MEG, has better margins. But the Coca Cola has actually brought it down, not because of ESG reasons as an adverse ESG reasons. But because they have chosen to balance their carbon footprint portfolio by using recycled PET which is also a mandate in the U.S.

In short, bio-based materials will continue to command some premium in the market. But it's not a market which is completely overtaking the crude market right now. It's a slow and steady process. From a company perspective, what we need to do is not only bank on greater traction for bio-based products, but to start looking at more value addition to these products. That of course is also something that we are working on, that's not a quarter-to-quarter result that it will influence.

Saket Kapoor: I was looking for the comment on the biopharma part, the Ennature Biopharma.

Rupark Sarswat: So Ennature Biopharma, which is a relatively small business for us, mainly got impacted because the largest product there that we sell is a product known as Thiocolchicoside, which is the muscle-relaxant. A lot of those sales were happening to Turkey. And there, there have been certain policy changes based on which certain incentives which were given there for the formulation based on Thiocolchicoside were withdrawn, which has impacted our margins adversely. We don't think that is going to change immediately. So, Thiocolchicoside margins can remain depressed. But what we are working on is a number of other extracts like Nicotine extract and derivative.

Manish Pant (Head-MIS): So, in Nutraceuticals apart from this Thiocolchicoside, the major chunk is now being fulfilled by this Nicotine and the Nicotine derivatives, whatever the shortfall we are having in the sales of the Thiocolchicoside. Apart from this, we are getting a good margin in the other products and good market with respect to the lutein and other pharmaceuticals contained or the APIs. So, in the next quarter or in the coming six months, we would have a better sale and a better margin.

Saket Kapoor: Just to conclude on this point that last year turnover and margin can be supported with the current business environment. And in this business, do we have any relations with the other Jubilant Group Companies, they are also in the same Nutraceuticals business? Are we aligning joint development of any product along with them?

Manish Pant (Head-MIS): Jubilant is synthetic drugs manufacturers, and we are natural pharma API company. So, we don't have any relation with respect to any product level or any collaboration with Jubilant.

Saket Kapoor: And on the margin part, if you could shed some light that would suffice. That we can look at a better, H2 would be better than what H1 is, that is what the understanding is.

Anand Singhal: That's what Saket we hope that H2 will be for the Ennature Biopharma will be better. And we are taking all the efforts to improve the performance.

Moderator: Thank you. The next question is from the line of Makarand Tilloo from Makarand Tilloo Investments. Please go ahead.

Makarand Tilloo: Right now, you said that potable alcohol whatever the requirement is that it will be in-house manufactured, correct. So, how much increase in margin will be there due to this change?

SK Shukla: See, first of all, as a certain segment which is say around 70%, which is the raw material is already secured by the Government. So, there should not be any problem. Other segment as our

CEO Rupark Sir has already told you that we are going to put up the two grain plants which certainly will increase the profitability, once we start, probably from the April next year.

Third is, we have already launched the premium products like Single Reserva, Amazing and some of the most innovative Rum, I can't say right now the name, because it's under the process. So, by launching these premium products, our certainly profit margin will go high. So, this is all about the potable segment.

Makarand Tilloo: So, grain-based distillery will add to our profit margin.

SK Shukla: Yes.

Makarand Tilloo: The second thing, last year MEG realization and current year MEG realization, what is the increase in that?

Anand Singhal: Last year, the MEG realization, average price for the whole year was about Rs. 73,000. While in first six months it is about Rs. 86,000.

Makarand Tilloo: It will sustain.

Anand Singhal: It will sustain, Mr. Gurwara can comment, please.

Sanjeev Gurwara: No, I am sure, this can sustain.

Makarand Tilloo: The third thing is that there is one small suggestion, before going for a question, the company is doing wonderfully and we are doing, everything is, dynamic is being shown. Can you, your website, also change accordingly.

Rupark Sarswat: Thank you for mentioning that. It is something that we are working on. We are working on making sure that our digital presence is enhanced, and it is representative of what IGL is transforming to be. And I am happy to get that encouragement that nudge from you, we are working on that as we speak.

Makarand Tilloo: I am a shareholder for last 15 years and the same website is there, so thank you for changing it. And the last thing is that a Shakumbari Sugar, previously there was some say that you want to divest in Shakumbari Sugar. Now, the realizations are there, there is a good prospect for sugar industry, whether we are going forward with this proposal.

Rupark Sarswat: You are right, and I would not be able to offer too many details and those are options that we are evaluating.

Makarand Tilloo: And only one thing is that QIP, there were Rs. 250 crore QIP, that is in sanction for last so many years, whether we are going forward with this QIP in near future.

Anand Singhal: No sir, that is an enabling regulation which we are always doing from last eight years, as far as the company is not thinking of raising any QIP funds.

Makarand Tilloo: So, the capital will be maintained as it is.

Anand Singhal: Till now yes, I will say like that, if tomorrow management decides something else, then I can't comment on that. But still, as of now there is no inclination to raise any kind of funds from the capital markets.

Moderator: Thank you. The next question from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: The first question is on potable spirit, so we have experienced the input cost inflation, but as I understand probably, that's the only segment which is a full driven segment. So, we did not take any price hike during the quarter or as a transitory increase in cost. And that’s the reason we are awaiting once the cost alleviate, we will take the price hike.

SK. Shukla: See as per the Government policies, liquor is completely controlled by the Government. And we start price increase, the request to a Government from the last week of December. Generally, price excise policy will be finalized by the February end. So, Government will call the suggestions, will evaluate the packaging cost, raw material cost between somewhere January. And they will accordingly give the price increase from the February.

So, because of peak increase in packaging materials so, we have already presented our case before the Government. And Government is seriously thinking. So, we hope that next year from the April onward we will get price increase with the good margin. And also, we are going to launch the new products in Delhi with the better margins and the premium products also in which we have a good margin. So, we are hoping a very good price increase in the Q4 and from the Q1 of the next year.

Rupark Sarswat: In short, what I have understood is that it is a tedious process, Rohit to get price increases both in IMFL and country liquor. And that makes it even if we intend to do it that makes it a little more time-consuming process.

Rohit Nagraj: The second question is now that our both distilleries are probably going to come to operations from March, April onwards, what is the kind of CAPEX plan we have frozen for FY22. And any further plans for FY ‘23, ‘24 given that once these projects are completed, we will have to look at for newer opportunities. So anything on the drawing board which we are currently working on, thank you.

Rupark Sarswat: Yes. Rohit, as you said, they are on the drawing board. These projects obviously we need to execute, they are big projects. There are obviously some other smaller projects which are in the pipeline. And as we approve them internally, we will share with you all as well. To answer your question whether we have frozen CAPEX for 2022 we may have an estimate, but we have not frozen that number as of now. We are in the process of working on it.

Anand Singhal: Rohit has already informed in the last quarter also during this call, for the grain distillery, we are already undertaking a CAPEX of say about Rs. 325 crores and some miscellaneous CAPEX for '22. But relating to '22, '23 that is always in process as Rupark Sir had just told, will come back to you if there is any major plan for the CAPEX.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICCI Securities. Please go ahead.

Sanjesh Jain: First on the Carbon Smart, where are we in the process of starting the manufacturing, that's #1. #2 Where we got this technology, is it in-house developed or we have licenses from LanzaTech and where are we sourcing carbon monoxide as of now, to commercialize this project. So that's on the Carbon Smart part of it.

Rupark Sarswat: So, as far as Carbon Smart products are concerned, we have made products here, which have been sampled, hedge plan scale. However, the regular commercial sale of these products are expected to start in the next financial year that is one. The second thing is that as far as the technology is concerned, making Carbon Smart products has two technologies involved and that is why there is a collaboration between three companies.

The first part of the technology involves converting carbon monoxide from various sources of emissions, big source of emissions into Carbon Smart ethanol, which is not something that we do, which is something that LanzaTech gets done. What we do, and that is where IGL is kind of unique, it converts that ethanol into Carbon Smart ethylene oxide and other derivatives. So, does that answer your question?

Sanjesh Jain: Yes, that answers my question. So basically, we are into ethanol to EO, while carbon monoxide to ethanol is done by LanzaTech.

Rupark Sarswat: Right so LanzaTech needed us because we are probably one amongst two companies or the only major one who does ethanol to ethylene oxide. And we needed somebody who had Carbon Smart ethanol for us to be able to convert it into Carbon Smart ethylene oxide and other derivatives.

Sanjesh Jain: We don't intend to manufacture ethanol by licensing the LanzaTech technology.

Rupark Sarswat: Not in the pipeline as of now and it is relatively farfetched, because what you need to do is you need to setup these kinds of technologies and plants, together with big generators of carbon monoxide, for example, steel mills or big petrochemical complexes. It is very new right now, and Lanza has kind of made a few tie ups and it is now kind of rolling where we see more and more volumes coming into the market make it available next year onwards. I don't see in the near future IGL planning anything of that kind. We may be adopting completely different technologies but not this.

Sanjesh Jain: One particular question for this quarter, Reliance had some issues with EO production. There was a shortage of EO in the market, were we able to supply the EO to the industries which were otherwise consuming it from the Reliance, had we that opportunity or in the longer term, India has only one manufacturer for EO, for a downstream chemical do we have a client to sell more EO in the market. Are we looking at the positioning?

Rupark Sarswat: Just to answer one question we have not so far being selling ethylene oxide into the market. We have only been consuming it in-house. However, Reliance has, they don't have an EO problem as such, as far as my understanding is concerned.

Sanjesh Jain: No, the last quarter they had shut down.

Rupark Sarswat: These are temporary issues where there is a lag. And there may be some opportunity for now our joint venture to supply some ethoxylate. But I would not see this as a significant opportunity to start selling more ethoxylate. Reliance also plans it out with their customers, and they have different plants where they schedule their shutdowns.

Sanjesh Jain: We don't intend to sell EO in the open market that will continue to remain.

Rupark Sarswat: We don't have any opportunities relevant to us where we can sell ethylene oxide, well if we do, obviously we will let you know.

Moderator: Thank you. The next question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: So, if we see the chemical segment despite our transfer to JV business, we have been able to maintain margins, because last year, perhaps you are not supplying to the JV and this time we are supplying some material to JV at lowest in margins, but despite that, we have been able to maintain margins. So, my humble submission is that if I understand your business correctly, it is dependent on raw material like ethanol and ethanol prices ups and downs create some sort of relative margin pressure on your company, either on the upside or on the downside.

So, for us it is better to understand from a contribution perspective that what sort of contribution per tonnes that you are going to make in the chemical division. So, and the similar thing is equally important for your liquor business, where also the raw material price increase and decrease will create either upward or downward pressure on your top-line. So, your percentage margin is immaterial to look at, that is how perhaps I have understood your business.

So, for us the most important factor is the contribution margin which is the per tonnes basis that we are going to make, and if that is showing us an upward trend, then perhaps your value addition or your value maximization strategy is working. So, if you could report these numbers, though, you have given the volume numbers, but if that come in the PPT directly will be really helpful, the past trend that you have reported and going forward. So, that's a humble submission. And what is your take on, the thought process that probably, I am having at this point of time. So, most of the chemical companies, make us learn that how to look at the business because these sorts of raw material movement or the end product movement will keep happening, but if you are able to pass on your increase in raw material cost to the end consumer, then hopefully the margin trajectory or the absolute margin trajectory will be intact. So, some take on that will be really helpful.

Rupark Sarswat: So Bajrang thank you, for your question. And also asking us the maximum question so far overall in the last three or four months, but I heard you out, there is some advice and suggestion in your comment, and of course, we will look at it internally and see how we can make some of those parameters a part of the presentation that we make. And if you need anything more specific, I am sure you can be connected to Anand Ji and we can have a discussion.

Bajrang Bafna: I was just trying to understand from your side also, that is it the right way to look at the company or just look at the relative operating margins that you report, or the absolute contribution that you make on the per tonnes basis. So, if you could clarify, that will be really helpful.

Rupark Sarswat: Bajrang, to be honest, there is no one right way. the good way is to keep looking at both. And we look at margins, but internally for some of our business, we also look at per kilo, or per kg or per unit or per tonne, whatever you say. I don't have those details to share with you right away, but you have made the valid points into how we should be looking at our business. we should be looking at both and one is more critical in some segments and one is more relevant in some other sectors that’s all.

Bajrang Bafna: And on the bioenergy or the glycol-based ether side where you indicated that there is some sort of Coca Cola taking a bit less from us right now, because of their own commitments to the other side. So, overall if you see that the world is moving towards biochemistry or the green chemistry so some small customers that we have got. But in terms of trajectory, do we see, you know, the demand for this ether-based glycol or this biochemistry or maybe some other chemistry that you might enter into future will be on the, on the rising side, those symptoms are clear in the market on that side on a sustainable basis?

Rupark Sarswat: Yes, the short answer to your question is definitely yes. But it is a slow and steady process. The macro trends will not change, there may be short term blips here and there, and it is also seen in terms of the bio-MEG traction that we have, from one big customer to more than 10 different customers now, which actually from a margin perspective are even slightly more profitable. So, the traction is there, but it's a slow process and that macro trends as you and I have heard enough about is going to be that way and we will continue to evaluate other opportunities for value added bio-based ingredients.

Bajrang Bafna: And just my last question on the liquor business side, we are seeing that the volume upside that is coming up in your business, but can the IMFL side, which is more profitable as compared to country liquor, which is again dominated by lower margins as compared to IMFL. So, on a progressive basis maybe next one or two year or maybe three years kind of timeframe, how do you see that both contributions moving from a company perspective,

S.K. Shukla: See, as far as the IMFL prospect is concerned, as we have already told you that Delhi is going to open the market and we are very aggressively pushing our products basically our premium products in these markets to gain the maximum advantage of the situation, which is the demand and supply gap in Delhi.

Second thing, we are going to expand our market in the nearby states like Chandigarh, Punjab, Rajasthan, Delhi and UP where is the maximum presence. So regarding the country liquor segment which is our majority stake I already told you that the price increase request is pending before the Government and which will be considered by month of January and February. So, we are expecting good profit in the next year.

Bajrang Bafna: And as far as the trajectory goes for IMFL and the country liquor, do you see that percentages in the overall revenue for IMFL is going to move up over the next two, three years kind of timeframe in terms of higher growth in IMFL business?

S.K. Shukla: We are well prepared and we are confident that our business will be increased by more than 100% in next year or next to next year '22 to '23.

Rupark Sarswat: we in general this year as well as next year, our assessment is that we will see good growth in IMFL.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference to Mr. Rupark Sarswat for his closing comments.

Rupark Sarswat: Thank you. So, on behalf of my colleagues here at Head Office of IGL, I would like to thank all of the participants who joined us and also showed so much interest in our presentation and asked us some very interesting, some of them difficult questions. No, thank you we all learn from it. Thank you very much and have a good evening, everybody. Thank you from this side.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

(This document has been edited for readability purpose)

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