



Clean Science and Technology Limited
i n n o v a t i o n a t w o r k

08.02.2023

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 Q3 FY22-23 Earnings.

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

Further to our letter dated 27.01.2023 and in terms of Regulation 30 read with Schedule III - Part A to the Listing Regulations, please find enclosed herewith the transcript of conference call on the Company's Q3 FY22-23 Earnings held on 2nd February, 2023.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Kulkarni
Company Secretary

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Clean Science and Technology Limited
Q3 FY2023 Results Conference Call
February 02, 2023

**MANAGEMENT: MR. SIDDHARTH SIKCHI – PROMOTER AND EXECUTIVE
DIRECTOR – CLEAN SCIENCE AND TECHNOLOGY
LIMITED
MR. PRATIK BORA – CHIEF FINANCIAL OFFICER –
CLEAN SCIENCE AND TECHNOLOGY LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Clean Science and Technology Limited Q3 FY23 Results Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital. Thank you, and over to you, sir.

Ankur Periwal: Yes. Thanks, Susan, and good evening, everyone, and welcome to Clean Science and Technology Limited's Q3 FY23 post results earnings call. The call will be initiated with a brief management discussion on the quarterly and 9 months 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 general reminder that 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 that disclaimer upfront, I'll hand it over to Siddharth for his initial comments. Over to you, Siddharth.

Siddharth Sikchi: Thank you, Ankur. So good afternoon, everyone. We are happy to share our Q3 FY23 results. Let me begin by sharing this news that our manufacturing plants for HALS 701 and 770 in our Unit 3 got commercialized in early December. Now the product is streamlined. We have also sent commercial samples to customers within India, and we are glad that we have received our maiden order for HALS in this month of January. We are also very happy to announce that we are the only and the first Indian company to have commercialized this technology in India. As usual, we had committed to some timelines, and we have been very close to these timelines.

Some key financial highlights for this quarter. I'm very happy to announce that we have recorded our highest ever quarterly profit after tax. We have recorded milestone of first quarterly PBT, which is more than INR 100 crores. This is the second quarter, I mean, quarter 2 as well as quarter 3, where margin improvements have been seen. Also, I'm very pleased to announce that this is the first time we have announced interim dividend after our listing. Also, the ROCE stands at a very healthy number of 53.6% and I'm happy to say that our 9-month FY 23 revenue stands at about INR 719 crores, which is 5% more than our full year revenue of FY 22.

Our year-on-year revenue growth continues across all geographies and segments. Revenues for Q3 touched INR 237 crores which is an increase of 31% as compared to Q3 FY22. Exports have risen by 38% and domestic revenues have grown by 17% on a year-on-year basis. Our key raw materials, energy and fuel costs, have corrected a little bit, and that is the reason you see these numbers returning. EBITDA increased to INR 108 crores as against INR 76 crores, which is a 42% rise on a year-on-year basis and PBT at INR 112 crores and PAT of INR 84 crores grew by 44% and 45%, respectively, as compared to Q3 FY22.

The balance sheet continues to be debt-free with cash balance of approximately INR 280 crores. For 9-month FY23 versus 9-month FY22, the sales improvement was led by a combination of good volume growth and improved realizations across all products. Nine-month year-on-year revenue growth is 50%. For this 9-month FY23, performance chemicals, pharma and agro intermediates and FMCG chemicals contribute to 68%, 19% and 11%, respectively, to the revenues. Revenue mix stands at 72% export and 28% domestic. Contribution from our new product is now increasing steadily and currently stands at about 10%.

On capex, we have incurred a capex of INR 105 crores during the 9 months of FY23, with majority going towards our new plants for HALS in Unit 3 and upgradation of our existing equipment for efficiency improvement. And as always, the capex is done through internal accruals. Construction activity at our fully owned subsidiary Clean Fino-Chem Limited is on track and various activities in this regard like site lay out, initial civil construction and activities are progressing quite well.

In terms of key organizational announcement, I would like to welcome our new CFO, Mr. Sanjay on board. He has a vast experience of 35-plus years in finance domain and is a valuable addition to the Clean Science team. Pratik Bora continues to be a key member and will oversee functions of strategy and corporate finance in his new role as Vice President Corporate Finance. In view of the new products that are under development or that are in pipeline to launch, we have also added strength to our sales and business development team. Our current R&D team stand at approximately 80 people, and it is further due to grow in the coming years.

The company is fully committed to sustainability and continuously implement several initiatives across the organization. We are continuously upgrading our facilities and investing in various new technologies across all our manufacturing units, which helped us to increase our energy efficiency and improve our focus on 3R, which is reduce, recycler and reuse. Our initiatives have helped us significantly to reduce water energy consumption and also reduce our emissions. We are committed to continually implement globally benchmark ESG practices. On CSR, our focus still remains on education, environment, sustainability and health care.

With our new series of products and a strong R&D pipeline, we continue to focus on diversifying our product portfolio and geographical presence. Our existing market segment continues to be robust and introduction of HALS will further contribute to the Performance Chemicals segment. We expect contribution to increase in FY '24 and onwards. And that's all from my side.

Moderator:

The first question is from the line of Sanjesh from ICICI Securities.

Sanjesh:

A couple of them from my side. First, on the China side, I think China has opened up finally. We have a very large exposure to China almost 35% of our revenue, and which has sort of underperformed in last 2 years for the obvious reasons. Do you think China open up can add tailwinds to our growth beyond the existing product expansion and the new product expansion? Will China opening up help in terms of driving faster revenue growth in that geography? China has underperformed growth if you see in geographies, right?

- Siddharth Sikchi:** So Sanjesh, over the past few years, I mean, last 2 years, we did not have any stoppage or reduction in business in China. In fact, I feel that maybe with China opening up with full swing could only help us to increase our business in China.
- Sanjesh:** Yes, that was the precise reason. Do you think that could add to the growth in China opening up and sourcing more.
- Siddharth Sikchi:** It shall add to the growth.
- Sanjesh:** Got it. Second, on the pharma piece, I think we added in the course of last 1 year. As the growth in pharma looks likely underwhelming, any particular reason or any particular product which is causing the drag on the pharma growth?
- Siddharth Sikchi:** Pharma business in itself is a little slow as the market is under slowdown and one of the key agro intermediate became quite slow in this year. So we saw quite a reduction in the volume of PBQ but I am expecting post March, these increase in volumes to restart again.
- Sanjesh:** Got it. So basically, it's largely PBQ.
- Siddharth Sikchi:** Largely PBQ, which is a new product.
- Sanjesh:** And Guaiacol and DCC continues to do well.
- Siddharth Sikchi:** Yes, because Guaiacol is a core product and we have to sell it to the extent we produce it and which we are able to sell quite well. I mean that's not a big issue for us.
- Sanjesh:** Okay. Got it. The next question is on the sequential revenue growth. There was a decline of 4%, while the gross profit has improved by 3%. Is it fair to assume that some of the reduction in the raw material prices have been passed on, and hence, there is a decline in the sequential revenue and volumes have grown, right?
- Siddharth Sikchi:** Absolutely, yes. You are right. Wherever there is spot business, where we have to adjust the prices, do the adjustment in the lowering of raw material prices.
- Sanjesh:** Why I'm asking this question is last quarter, you said that you would want the margins to stabilize at 39%, 40% in this quarter, which was already half a quarter into this quarter, and we are at 45% margin. In half a quarter that looks like slightly stretched. Were you surprised or it's more mathematical where you have passed on the margins? How have been your EBITDA per if you want to assess that? Is there an improvement even in that?
- Siddharth Sikchi:** I don't think we can share the EBITDA product-wise or segment-wise.
- Sanjesh:** I'm not asking for number. I'm more willing to look at that trend.
- Pratik:** So Sanjesh, just to add here, there have been 3 major factors which have contributed to EBITDA margin. The first factor, as you rightly pointed out, the raw material cost, which is corrected to the tune of close to 17% to 18% between our flagship raw materials. And the end product prices have largely remained steady. The second key factor is the power and fuel cost. So you'll see

almost a 2% improvement there. And the third factor has also been on a year-on-year basis, if you see now we are at a very large revenue base, close to INR 240 crores a quarter. And our fixed cost is now getting absorbed over this larger revenue base. So of course, there are benefits of operating leverage, which are playing around.

Sanjesh: Got it. Now coming to the other expenses, which has declined, this is purely because of the reduction in the power cost and the freight cost because I thought we have started commercializing HALS, so some of the costs would have come from the commercialization of the plant where it has decreased 15% quarter-on-quarter. Is there any one-off or it is steady state.

Pratik: No. So in other expense, there is no one-off. So a couple of things have played on power and fuel cost. The coal pricing has come down from INR 13 to INR 11 per kg. So we saw a delta of close to INR 2.5 crores. Beside there was a small refund of coal cess which has also benefited us. So that has led to a moderation in other expense costs. But apart from that, there is no one-off.

Sanjesh: Because it has come down from INR 47 crores to INR 39.5 crores, there's a delta of INR 7 crores to INR 8 crores, you did mention about INR 2 crores from the coal. Other INR 5 crores benefit is coming from?

Pratik: Q2 to Q3, yes. So basically, there are 3 big ticket items, power and fuel cost. Second is repair and maintenance. And the third is other expenses put together, where there is, of course, a CSR component as well.

Sanjesh: Okay. So there is no forex gain or anything.

Pratik: So the forex gains sits in other income, not in other expenses. So either gain or loss recorded in other income line item.

Sanjesh: So the increase in other income. This is a follow-on. This increase in the other income from INR 2.8 crores to INR 12.6 crores is what that explains?

Pratik: Yes. So in other income, INR 12.5 crores, there are 2 heads to it. First is the regular treasury income and the forex income, which is INR 4.5 crores plus INR 2.7 crores, i.e. INR 7.2 crores. And the balance INR 5 crores is coming from disposal of noncore asset and some coal cess refund which we have received this quarter.

Sanjesh: Got it. I got all the clarification on the bookkeeping, but I have a few strategic questions, but I will come back in the queue.

Moderator: The next question is from the line of Arun Prasath from Avendus Spark

Arun Prasath: Siddharth, if we take your 2 major products, MEHQ and BHA. How much room you have to grow volumes from the current levels without the need to put additional capacity. Some ballpark numbers will be helpful.

Siddharth Sikchi: So here, I think we have increased our capacity by 50% in the month of April. And of course, we had anticipated that this capacity in itself will take care for 2 years of our needs. But we were

able to commercialize and the market was able to absorb all of this maybe also because of the European energy crisis. But I feel that our MEHQ and Guaiacol because these are core products of each other should grow at typically 5% to 6%, and maybe not for now but maybe after a year or so, I would be able to exactly comment on whether a newer facility will be needed or not. At the moment, it is a little difficult to confirm on this point.

Arun Prasath: This 5% to 6% growth is on the category level, right?

Siddharth Sikchi: On the industry level.

Arun Prasath: So, your growth should be much higher if you are gaining market share?

Siddharth Sikchi: Yes, we will grow above the industry rate. See after a point, it will become very difficult to grow market share, and it will only lead to price revision because we will have to lower the prices to get additional market share. So we feel that new growth will come from our new segments of product, which is the HALS segment, which we have commercialized and also the new products like PBQ, TBHQ and other pharma and agro intermediates.

Arun Prasath: All right. And regarding the HQ prices. Do you see any softening of the prices? Do you see any early indication of some softening in this year?

Siddharth Sikchi: Already revised, they have started revising. I mean, it had gone to \$13, and today, it is slightly above \$7. And I expect these prices can also further revise a little bit more. Because conventionally, HQ is about \$5.5 to \$6 product

Arun Prasath: Right. So if we are going back to that kind of a pricing, how much MEHQ supply can come from your competition? Because then it becomes very attractive for the competition to come back into this market, isn't it?

Siddharth Sikchi: Again, see HQ, when they convert it into MEHQ, they also get additional product called PDMB which now the market has reduced to substantially lower level. I mean there is availability but no offtake. So that product has to be monitored and addressed before making the main product. And plus, of course, the effluents are always there. And what happens is for products or additives like our performance chemical like MEHQ, my customer prefers steady supply. They don't like on and off of supplies because these are very important additives for them. So if somebody can restart an MEHQ facility, and if I am able to offer them, they would still want to buy from me because we have a sustainable process and we do not have these on and off and not dependent on just a raw material called HQ.

Arun Prasath: So, whatever you have gained market share because of the closure of the HQ based players. So you are confident you will be able to maintain that and sustain it.

Moderator: Yes. 100%.

Arun Prasath: Right. That's very helpful. My last question is on HALS. I think you have reiterated the time. So can we expect the ramp-up in next 6 months? Is it the right assumption at this point of time?

Siddharth Sikchi: Because now we have commercialized, the samples have started flowing to the customers. People have approved, we have got some maiden order. So I'm very hopeful that in the next 6 months, 770 will be well entrenched in the market.

Arun Prasath: Okay. Typically, for this isn't the approval process longer than, say, a couple of years. Why for us especially for HALS, it's a very short period.

Siddharth Sikchi: Advantage of HALS is, first of all, this is a majorly Indian business. Typically, India is a very price-sensitive market. As compared to MEHQ or BHA, the market is out of India, like Europe, US, Japan, where the timelines are far higher to approve a vendor. But these markets, which go into master batches is a very price-sensitive market, plus these products are not going into food products, where approvals are far higher as in a cosmetic or food industry, the process is far higher compared to a master batch. We are going to first target Indian market, which is price sensitive. So the import is about 3,000 to 3,500 tons, and I am only targeting 30% of only the Indian market share, which is a very doable number.

Arun Prasath: Okay, and the price of 770 is sustaining at the level that you anticipated last year?

Siddharth Sikchi: Because the raw material prices have come down, the prices have come down, about \$6, \$6.5, and we are able to maintain that. That's not an issue.

Arun Prasath: Okay. And then initially, like do we have to take a price cut to full capacity.

Siddharth Sikchi: I need to make it attractive for a customer so that he has the ability to shift from an existing vendor. And fortunately, because it is overseas vendor, so there is always an inclination to buy in India because of just in time, also, we can supply them as per their needs. They don't have to keep stock in their factories. So all those advantages we offer plus the import duty of 8%. So all those benefits they get when they approve us in their system.

Arun Prasath: Okay. So what kind of utilization we can expect on the 770 and 701 by the end of, say, next year?

Siddharth Sikchi: We should expect at least 50% to 60% of capacity utilization for sure. Because by December, our other line of HALS will begin. So in the next 6 to 9 months, my target is to touch about 1,000 tons of sales minimum. I mean 100 tons per month type.

Arun Prasath: That's a very, very aggressive number, isn't it?

Siddharth Sikchi: Well, at least we keep some good margin. I mean, we should have some higher targets, and so at least the target, we should sell 100 tons a month, say, by October, November. And let's see, I mean, I think it is possible. Let's see how it goes on.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: So just two questions there. One on HALS. I recollect you earlier mentioning that we had already cracked a couple of products at lab-scale scale, and you were looking to scale them up. Two of them are already sort of commercialized. So first question, what are the timelines that one should look at in terms of launching of new HALS products? And secondly, from a revenue ramp-up

or a product approval perspective, will it or will the sharper sort of revenue ramp-up in HALS products will come only when we have, let's say, a portfolio of maybe 7, 8 products which makes an impressive offering from a client perspective? Or it is slow and gradually and it will keep on adding up? How should we look at that?

Siddharth Sikchi: 1 question at a time. So all HALS are now successfully developed, which commercialize by December including 622, 944, 119, 2020, etc. So between December 2023 and March 2024, all these products will come online. So that is answering your first question.

Second question is Indian market does not buy all of it. So they buy majorly 770 and then buy majorly 944. So today, when I'm starting with 770, the whole reason of starting 770 is that India does not need all these products. Because these all go in different segments, India chooses 770 more than other HALS in their process. So 770 in Indian market or Indian perspective does not have any implication if I have other products in the basket or not. But when I start with 770, I develop confidence of customer by December. So when a new capacity comes in, they are convinced that even the other HALS, we will be able to supply them with good quality that they are using currently and we are actually a sustainable source for them.

Ankur Periwal: Sure. On the international market, how should one look at the ramp-up of the product improvement.

Siddharth Sikchi: So international markets, we are already talking to some of the distributors. Of course, we can start by sending samples of 770 and telling the customers that see these other products in pipeline are going to come in about 9 months' time, which is not a very long waiting period. I mean, by the time I give samples, by the time they approve it, they can see that in the next few months, we will be ramping up the other facilities and products as well.

Ankur Periwal: Sure. And on the pricing-wise, competition here, since BASF is the largest one and there are respective power, gas-related issue there. How our pricing would be, how you'll be faring pricing of our products versus theirs? What could be the gap?

Siddharth Sikchi: I think we will have to offer at least 5% discount, 5% to 10% now where BASF is predominantly present. That is how a customer will get that boost. And plus with this whole energy issues, I'm sure even a European would want to look at Indian source because if the power, energy problem returns or whatever, they still need another non-EU supplier base that they can depend on and have two suppliers for this product.

Ankur Periwal: Sure. And on a backward integration side, any thoughts there for HALS or it is still probably early days?

Siddharth Sikchi: No, no, we are fully backward integrated. We are starting from the basic raw material, acetone and ammonia. That is the whole beauty of this technology. These are catalytic transformations, and we are starting from basic raw materials. I cannot make acetone and I cannot make ammonia. So I mean, these are the most commonly available commodity chemicals, which we're using to make the entire HALS series.

Moderator: We move on to the next question that is from the line of Abhijit Akella from Kotak Securities.

- Abhijit Akella:** First, just on the revenues and volumes for this quarter, but there's been a modest decline in revenues on a quarter-on-quarter basis. Is this possibly to share the volume numbers on a quarter-on-quarter basis, like what the volume growth might have been and how much prices were down?
- Pratik:** Abhijit, we are not comfortable sharing the volume and pricing for individual products. But I think quarter-on-quarter, it's not a fair comparison here because Q3 is generally leaner period for us because anyway, the majority of the sales is coming from export market and because of general inventory destocking, exports are a little slower. So year-on-year comparison would be a fair comparison.
- Abhijit Akella:** Okay. Got it. And as you mentioned previously, the EBITDA per kilo, our spreads would have actually improved because of the falling raw material prices. That's why the profit margins have picked up. Is that fair to interpret?
- Pratik:** Yes. And the correction in raw material prices has not transpired into correction in the end product prices. End product prices have largely remained steady.
- Abhijit Akella:** Got it. And 1 last thing. The presentation mentioned that about 10% of revenues have come from new products. Is it possible to just share some color on which of these have prominently contributed to this?
- Siddharth Sikchi:** So, these are TBHQ, PBQ and Veratrole. These are new products which we have started and which have contributed to 10%.
- Moderator:** The next question is from the line of Rohan Vora from Purnartha Investment Advisors Pvt Ltd.
- Rohan Vora:** So my question was partially answered when you answered an earlier question, but I would like to ask how do you look at the competition in India for MEHQ and Guaiacol specifically? Given that one of the player is coming up with the capacity in the next year?
- Siddharth Sikchi:** We will like to focus on our business rather not focus on what others are doing. I think this is how we would like to remain. And if competition comes, we think we are quite equipped to counter the new competition in this business.
- Rohan Vora:** Okay. But, would it have an impact on margin for a while or market share for a while or we would be able to maintain that?
- Siddharth Sikchi:** We'll be able to maintain. Let the competition first come in.
- Moderator:** The next question is from the line of Archit Joshi from B&K Securities.
- Archit Joshi:** Congrats on a good set of numbers. My question was on a comment that you made earlier that the Indian customers don't need the plethora of HALS, that we intend to manufacture in the future. So there's naturally going to be us looking at the export opportunity for HALS. So I just wanted to understand how the approach is going to be in terms of selling these newer HALS eventually which we will start manufacturing in our facilities later on. Because there is competition from global majors like BASF, and since this is again going to be a product which

will have quite a bit of customer stickiness, how difficult or easy would it be to kind of grab market share from them. So just your thoughts on that.

Siddharth Sikchi: All the products which we have started in our earlier days of career have been manufactured by someone or the other. For instance, MEHQ, when we started, Solvay was a very, very dominant player globally. However, over the years, we were able to establish our footprint and increase our market share. However, those times and this time, the difference is today, we are quite mature in the market. We have distributors across the globe. We have customers whom we have known. So the penetration will not be as difficult as it was in those earlier days.

And the second important point is that as a purchaser, BASF is also quite, I mean, strict on their policies, where we, as a smaller player will be quite flexible, for instance, packaging. If a customer needs specific packaging, BASF would not do a specific packaging for a specific customer. But for a player like us, we will be able to do this. And that is how we will win over these customers compared to other bigger players and I'm not looking at a larger market share. Plus, the best part about HALS, is that the market itself is growing at about 10-odd percent. So without too much of disturbing these big players of the game, we'll still be able to get a reasonable market share for us.

Archit Joshi: Understood, sir. Just 1 thing on the market that is growing at 10%. I think in the past year, it was mentioned that size is about \$1 billion market. And there's just some confusion I had with respect to the volumetric size of which you mentioned that it is about 12,000 in terms of volumes. But if I do that it works to be like \$90, \$95 per kg sort of a product on a blended basis. Is there some discrepancy in my understanding? Is it that the 12,000, 13,000 tons that you're looking at is only specific to the product that you are manufacturing? Or the entire market is that big.

Siddharth Sikchi: The entire HALS market, meaning adding all the global capacity stands at \$1 billion. I am just making some percentage of this. So hence, your assumption of calculating my volumes and dividing by \$1 billion and arriving at \$95 is not the right way.

Archit Joshi: Okay. sorry, I still couldn't get that. So the 12,000, 13,000 tons that we had spoken of earlier is specific to the products that we are going to manufacture.

Siddharth Sikchi: It is a combined capacity of all the HALS products we will be manufacturing. Meaning 770, 701, 119, 944, 2020, etc.

Archit Joshi: Got it. Sir, I believe is it that the \$1 billion market size is for all light stabilizes because I think there are UV stabilizes also or is it very specific.

Siddharth Sikchi: HALS is the major part. Actually, UV stabilizer is like very, very minor percentage in this entire HALS business. And these are called as UV absorbers. HALS are UV stabilizers.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congrats on good set of numbers. My first question is in terms of capacity utilization across 3 segments. If you can just broadly tell us in Performance Chemicals, pharma and FMCG maybe excluding HALS, the capacity utilization by Q3 end.

- Siddharth Sikchi:** I think Performance Chemicals were 68%; pharma, agro was 19%; and FMCG was about 11%.
- Pratik:** No, sorry, a small correction there. These are revenue contribution numbers which were just mentioned. In terms of capacity utilization, Performance Chemicals is higher close to 75-odd percent; followed by pharma, which is close to 65%; and FMCG Chemical is between 60% to 65%.
- Rohit Nagraj:** All right. And that excludes HALS because HALS started just now, right?
- Pratik:** HALS excluded
- Rohit Nagraj:** Sure. Second question is in terms of the capex that we're planning. So if you just can give us the details in terms of FY 23 capex and FY 24 capex in terms of different segments and what will be the amount?
- Pratik:** Yes. So, FY 24, in the parent company, there will be a small maintenance capex, but the majority of the capex will happen in the subsidiary company, which could be north of INR 150-odd crores.
- Rohit Nagraj:** Okay. So, it will be FY 23...
- Pratik:** FY '24.
- Rohit Nagraj:** Yes. FY '23 for the first 9 months, we have done 105...
- Pratik:** That is in parent company. And in subsidiary company, we have infused INR 65 crores which is over and above INR 105 crores.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital.
- Nitin Agarwal:** So, I think on your comment that you made about during the quarter, raw material prices have come off, but the end product prices are holding stable. So sir, is this the nature of our product portfolio that are end product price are reasonably from a pricing perspective? And I guess, in periods of raw material and it's totally impacted by the raw material volatility either way?
- Siddharth Sikchi:** So basically, the beauty of Performance Chemical is such that, see there is a range which is stuck in the purchaser's mind. So when the raw materials price increase steeply, they don't want to increase steeply. But even when the raw materials fall steeply, they are not looking for total correction. So that is the beauty of this business, that it is really very little price bound compared to the raw material volatility. Hence, in quarter 1 and the earlier quarters when the raw materials were quite steeply high, we were not able to pass everything to the customer, and which is why our customer base still remains intact to us.
- Nitin Agarwal:** Fair enough. So I guess, I mean, is it fair to assume that during the period or during a phase where if the raw materials stay reasonably benign, our gross margins reasonably strongly hold on as we've done in the past, barring in the last few quarters.
- Siddharth Sikchi:** Correct.

- Nitin Agarwal:** Yes. Okay. And then secondly on likewise similar question on your other expenses. Now in the current manufacturing network that we have are fixed costs around staff costs and overheads are they largely in the base now? So whatever revenue growth that you will get incrementally of operating leverage on it?
- Siddharth Sikchi:** Absolutely, yes. Yes.
- Moderator:** The next question is from the line of Arun Prasath from Avendus Spark.
- Arun Prasath:** Siddharth, now that your R&D bandwidth is mostly free given that HALS has moved to the commercial stage and operations stage almost. Currently, how many products you are currently working on R&D side? And when we can expect the next major announcement regarding the new products.
- Siddharth Sikchi:** So what we prefer is, I mean, going forward, when we are about to commission the facilities or when we are in mid-construction phases is when we would make the announcement, not make earlier announcements anymore.
- Arun Prasath:** Okay. So we will be only announcing once you have built a plant? Or is it like that?
- Siddharth Sikchi:** Yes. I mean we prefer doing that. I mean we do it rather than just make announcements.
- Arun Prasath:** Okay. Just as an indication, how many products are there in your pipeline at this point of time
- Siddharth Sikchi:** There would be more than 10 products at any given point of time.
- Arun Prasath:** And all these products are in the similar end categories or similar adjacencies or it's something away
- Siddharth Sikchi:** Some are in performance chemicals; some are in agro and pharma intermediates. So our sales remain quite focused. I mean, we are quite clear about the space we want to operate in. So we are quite sticking to this space, and we like this space quite a bit. Also, very interesting products we are working on pilot scale and very soon, we will start working on the plant. So just after HALS commissions, there will be a line of interesting products coming up, too.
- Arun Prasath:** Okay. So this capex guidance of INR 150 crores includes the plant for other products as well?
- Siddharth Sikchi:** So basically, when you start any greenfield, you have to start with everything together. I mean you need to build a common admin block; you need to build a common utility block. You need to build a common effluent treatment facility. So some of these facilities will be useful for any other plant we built. And next capex will only be pertaining to that manufacturing block, but not with overall site development.
- Arun Prasath:** Great. What I was asking is the new product that you said you'll launch after HALS, that already your construction kind of underway.
- Siddharth Sikchi:** No. We want to first let HALS come to a decent size and scale because I mean, we want to start this production by December or at least have commercial runs by December. So we don't want

to divert too much of attention into getting into something else right now. Because HALS in itself is a very large segment we are getting into. So once we reach a decent scale here, I mean, in terms of construction or something, then probably by March 24 end, we might start construction for our other facilities.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: So you mentioned that we have strengthened our sales and development team along with R&D. So in terms of the staff cost expenses, would this be the trend going forward? I mean, increase in terms of inflation?

Siddharth Sikchi: Not too much, don't worry, our numbers are never going to be very flamboyant. And with the revenues growth coming in, it will be on similar levels. So don't worry about that.

Rohit Nagraj: Sure, sure. That's wonderful. Second thing, in terms of capex, just 1 clarification. On the subsidiary front, we mentioned about INR 150 crores of capex. And partly, this will go in terms of infrastructure and partly for creating capacities. So in this particular phase, how much amount of capex will go for capacity creation.

Pratik: Actually, the 150 crores will go towards this HALS products which we just mentioned. It will go for these HALS products put together.

Moderator: The next question is from the line of Garvit Goyal from Invest Research.

Garvit Goyal: So just 1 question. Our company's product finds applications in various industries like pharma, agri, agro, et cetera. Can you please give me a brief outlook how the demand traction and things are happening there on how do you see them shaping up in the near future?

Siddharth Sikchi: Let me answer your first question. The Performance Chemicals is looking quite robust. Same is the case with pharma. A little bit agro is down. So that is what I mentioned about PBQ. But all in all, it's a decent growth. So I don't see too much negative around it.

Garvit Goyal: Okay. Sir, can you guide me the next 1- or 2-year outlook.

Siddharth Sikchi: We are not giving any forward-looking statement, sorry.

Moderator: The next question is from the line of Sanjesh from ICIC Securities.

Sanjesh: First, I wanted to understand our go-to-market strategy, particularly, you did elaborate on the domestic market. But can you similarly help us understand for the 701 and other products which we are targeting the international market. One, which are the applications which you think are low-hanging and would be very easy to tap? And number two, which are the geographies which you think there is an inherent demand and which fits very well in our portfolio. These are the first 2 questions.

Siddharth Sikchi: I'll give you very broad view, Sanjesh. I cannot give you product-wise and market strategies and application and area-wise segment, etc.

- Sanjesh:** Broader strategy.
- Siddharth Sikchi:** Like our other products, we will have both channels, we will have direct customers, and we will have distributors for these products. Because European or American customers who prefer stock point, they would like to only buy through some distributor channels. And we have our existing distributors who are already into additive businesses or Performance Chemical businesses who are quite equipped or understand these markets. So these will be our first point of contact, and the sales which we have made in the domestic market. So this is how broader market will look like.
- Sanjesh:** Got it. Second, again, a question on the HALS. You said that it's growing at 10%. It looks phenomenal considering that the global GDP is over 3%. What are the applications which is driving the HALS grow at such a rapid pace? Is there a new applications being developed. How should we see this 10% growth and would be very helpful if you can help us understand.
- Siddharth Sikchi:** Each product has a different application. And we will be able to send you across because these are 11 products which have different applications across different segments. So it will be very difficult to explain you on telephone call. You can get in touch with Pratik and he will send the details.
- Moderator:** Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.
- Siddharth Sikchi:** So I thank all of you for taking time out to understand our results and to participate in the call and for the interesting questions. With this, I look forward to, again, getting in touch with all of you after our Q4 or FY 23 numbers. So thank you again, all of you, and thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.