May 09, 2022

The Manager (CRD) **The BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai- 400001	The Manager – Listing Department **National Stock Exchange of India Ltd** Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (East) Mumbai - 400 051
Scrip Code: 530117	**Symbol: PRIVISCL**

Dear Sir / Madam,

Sub: Analyst/Investor Meet - held on Friday, May 06, 2022, between 4:30 p.m. to 05.45 p.m.

Pursuant to our letter dated May 02, 2022, intimating about Analyst/Investors Meet to be held on Friday, May 06, 2022, we hereby inform you that the said Virtual Investor Meet took place as scheduled.

We enclose herewith the transcript of the earnings conference call and the same is also available on Company's website at www.privi.com.

You are requested to kindly take the same on record.

Thanking you,

Yours Sincerely,
For **Privi Speciality Chemicals Limited**
(Formerly Known as Fairchem Speciality Limited)

PRIVI SPECIALITY CHEMICALS LIMITED (Formerly known as Fairchem Speciality Limited) REGD. OFFICE Navi Mumbai-400 709

Ramesh Kathuria
Company Secretary

Encl: as above

"Privi Speciality Chemicals Limited Q4 FY2022 Earnings Conference Call"

May 06, 2022

ANALYST: **MR. SAURAV KAPADIA - ASIAN MARKETS SECURITIES**

MANAGEMENT: **MR. NARAYAN IYER – CHIEF FINANCIAL OFFICER - PRIVI SPECIALITY CHEMICALS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Privi Speciality Chemicals Limited 4Q FY2022 conference call hosted by Asian Markets Securities Private Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinion and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurav Kapadia from Asian Markets Securities Private Limited. Thank you and over to you Sir!

Saurav Kapadia: Thank you. Good evening everyone. On behalf of Asian Markets Securities I would like to welcome you all for 4Q FY2022 earnings conference call of Privi Speciality Chemicals Limited. From the management we have with us Mr. Narayan Iyer, Chief Financial Officer of the company. We shall start the call with the opening remarks from the management and then we will move to Q&A session. I now hand over the call to Mr. Iyer for his opening remarks. Over to you Sir!

Narayan Iyer: Good evening. This is Narayan Iyer, the Finance Head from Privi Group, and a warm welcome to all our investors and all participants on this call. To give a brief with regard to the performance of Privi on the year that has gone by that is the year 2021-2022, we have been able to achieve a consolidated sales of about 1402 Crores prima facie everything comes from the aroma chemical space, and the volume that we achieved in this year was about 29432 metric tons. This in comparison to the earlier year where we were able to do a sales of about 1276 Crores, the volume was about 29337 metric tons. So volume wise we have hardly grown about 0.32% as compared to last year and value-wise by about 9.81.

Just as a reminder to most investors though everyone is aware, we lost almost about a month's sale due to the flood at Mahad where our factory and our operations were closed for more than three, three and a half weeks. So that is a segment wherein we lost some of the volumes, and second because of the ongoing pandemic and the Government of India and especially Maharashtra government and to some extent Gujarat government had also banned the use of oxygen supplies to industries due to which most of my Capex there has been a delay in completion and hence in the financial results that have been uploaded yesterday, both in the stock exchanges as well as on my website, you will see that there is a huge amount of CWIP that is capital work in progress still lying around because our date of completion for our two main large projects which consists of camphor at unit 2 in Mahad and the Galaxmusk project at unit 6 in Jhagadia, Gujarat are still to be completed. We expect both the projects to be completed positively by this quarter and some revenue or some sales to start from July 2022 onwards. Broadly the turnover and sales has been more or less with what we thought about that we will be able to achieve except that we faltered on completion of the projects and profit wise also we would have been much better off than what is appearing today to you of about 131.36 Crores prior to the exceptional item and 136.65 Crores of post the exceptional item and exceptional item is nothing but the insurance money that we were able to get in this quarter from the insurance settlement, but to the fact that there were two main increase in our input costs, which actually to some extent derailed our profitability statement. One, the freight expenses which as most of you are aware are continuing to be on the rise and there has been no control, availability of vessels and containers and ISO tanks has been a big, big, big, challenge for us and I think it is most of the exporters as well as importers. If I had to do a like-to-like comparison between what the expenditure or what the cost was in 2021 and what it was in 2021-2022, the company has almost lost on account of the higher prices of the freight expenses both for exports as well as imports an amount of 50 Crores were spent higher and due to the coal expenses going up, we almost ended up paying close to about 20, 22 Crores higher on the coal front. So had this been on more like an apple-to-apple comparison between last year and this year our profitability could have been possibly better. So this is on the P&L that I would like to give an opening comment or an opening remark.

Second a remark on the balance sheetbefore I hand it over to you all. Do not get perturbed by the inventory level which is high. There are two counts on which inventory has gone up, one the delay in completion of the three projects Prionyl, Camphor and Galaxmusk, which as per schedule was something to happen between October to January, which is still not yet happen with regard to Camphor and Galaxmusk and Prionyl has just started. Being imported items there is a lead time so some of the inventory has got piled up on account of these two products also. Second because of the continued freight problems, there is a long gestation time of the vessels coming in and vessels going out, sometimes most of the vessels are offloaded in transshipment bases and everything and hence you will see in my financials our GIT number goods in transit both on account of the raw material imports which we import worldwide and as well as the GIT on account of the finished goods or the sales, these numbers have also gone up thereby pushing up our inventory level in this year on March 2022 to as high as 562 Crores or so. However, we are confident that with the starting of the two projects Camphor and Galaxmusk where some other inventory have got piled up, we will be in a better position to utilize this and by December and more so by March 2023 you will see that Privi's inventory will be back to where it used to be on the factory front of about two and a half months and on GIT, because now GIT is something that I will have to live with especially when we are complying with Ind AS norms. So that may continue to be in the range of about 30 odd days or so. So inventory level will remain at about 105 to 110 days and due to this higher inventory and also that the working capital cycle getting a little bit strained because of the circulation of money within the system globally as most of the global economies are finding a little bit of a recessionary trend and inflationary trend in fact basically, we find that money is hard to come about and due to which my borrowings on the working capital front has also gone up in comparison to the previous year because it is all lying within the system, within the inventory, within the payables, within the receivables, etc.

As far as the term loans is concerned, term loans was something which was approved and which was indicated to all the investors as well as to the board and to the shareholders, because it was mainly on account of completion of the three ambitious projects that Privi had embarked, so those money have been utilized for such Capex. Do not worry, there is a good potential in Privi as we go into 2022-2023 with these projects to be completed. Yes we are a little cautiously optimistic in this year mainly because of the continuing pandemic situation, the war still not giving any sort of a trend of being completed or near completion because we still really do not know which way the war situation is going to pan about and many of the economies like US, Japan they are all already into a high inflation, Argentina as an economy has really come down and we do have some concerns on the Latin American markets also apart from Argentina. So keeping all that into the account, Privi as a company are cautiously optimistic in this year. The reason of being cautiously optimistic is we are optimistic because till the time mankind would like to continue to have a bath and like to smell good and you know keep washing clothes as you all are aware 90% of my products that we manufacture are used in this segment. So that is why we always feel that our products, the main products on the pine space and some on the phenol space is to some extent recessionary proof. Yes, the specialty chemicals is something which thrives when there is always a feel-good factor around the global economy and we expect this trend to reverse maybe in about three to six months time. So on that opening remark, I hand it over to the investors and to Saurav from AMSEC to take the meeting ahead.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Manish Gupta from Solidarity. Kindly proceed.

Manish Gupta: Thank you for the opportunity Sir. I had three questions. My first question is that you talked about the pressure on raw material prices and freight and coal, I would like to understand what are the dynamics of your business i.e. that the steep increase you have seen in input prices and logistics costs, over time can you pass these on to customers to protect your margin or is this something that you will have to bear, that is my first question.

Narayan Iyer: You want to reply to your first question.

Manish Gupta: I can give you all three so whatever works for you.

Narayan Iyer: As far as the freight is concerned and the steep prices that is going around. When the freight prices on the inputs is concerned in fact that means when I am importing raw material and my basic imports are the pine based raw material and all this pine based raw material we buy at x works basis which means the entire freight and freight logistics is borne by Privi and not by the supplier. So this keeps changing on consignment-to-consignment basis of late because no one is ready to enter into long-term contracts on the freight expenses. As far as the exports is concerned or my sales is concerned once again where we used to have long-term contracts of six months or one year with most of the freight forwarders and the logistic company, we find that the last one year starting from January 2021 onwards most of these companies are not agreeing to a long-term contract or to a fixed price because they themselves are not aware as what could be the logistic cost or what could be the expenses that a company who is owning the vessels are going to charge to them. However, when we entered into annual contracts for our global customers last year as well as in the current year we find that our prices are fixed even for the freight. Previous year none of the customers were ready to give us the increase in the freight expenses though we went back and we had suggested about this logistic expenses being very, very high. This year when we entered into contracts in the month of October, November, December based on whatever was the freight then available in the market, the rates, on which we added about 5% to 7% thinking that this would be the top and beyond that it will not happen we find that after the month of November and December and more so starting from February and March with the war coming in and subsequently China and Shanghai and all this being under lockdown, the freight expenses still continue to be on the rise and in such a situation it is, very difficult for us to get back to the customers especially those customers where we are having an annual contracts or a six monthly contracts that these customers will not come back to us and allow us that extra freight expenditure. So it will be difficult for us though we will try our best whenever the half yearly contracts or the annual contracts get renewed or is in the position of renewal, we do get freight expenses a little bit from the customers. I hope I have been able to clarify on the freight and that is what I wanted to ask you.

Manish Gupta: Yes. So what I take away paraphrasing what you are saying my understanding is you are saying that a portion of the inflation in freight you can perhaps recover with a time lag that is what I hear you say.

Narayan Iyer: Absolutely.

Manish Gupta: My next question is that we have been doing a lot of work in biotech and we have a pilot plant and all that. Based on what you know at present and of course these things are still evolving by when do you think that we can commercialize our first biotech product.

Narayan Iyer: Well with the way in which it is progressing and as you know biotechnology is something that you can see a success today or you can see success maybe three to five years or no success also. But having seen the trend and the research and at the minuscule pilot and now in the main pilot we expect these things to give us a positive output and we should be ready to start commercializing thereafter after getting the results and the yields somewhere from 2024, 2025 onwards.

Manish Gupta: So are you saying that we should see first revenue of this in fiscal year 2024-2025.

Narayan Iyer: The first revenue may come about in 2025-2026. I am saying that we will have to commercialize this in 2024-2025. Now we are at the pilot scale. So once the pilot at a 1000 kilo level gets succeeded or at a 100 kilo level of output gets succeeded that is when we then try to commercialize such biotechnology products for which we may require some Capex amount and post receiving the Capex amount it takes about a year to 15 months to set up any Capex in the aroma chemical space whether it is a synthetic aroma chemical or a natural biotechnology aroma chemical and that is the reason that I said that we could probably see commercialization happening in 2024-2025 and the first bit of revenue coming from 2025-2026.

Manish Gupta: And my last question is that in the last call I think you published a very nice presentation about all the products that you were working on and how those would give you your revenue over the next couple of years and I think you mentioned that the target was roughly 3000 Crores in three years and then 5000 Crores after that. So what I wanted to understand is that do we have development right now which will get us from 3000 to 5000 or these are products that we will identify or are these products already in development, which is why you have the confidence that these products will take you from 3000 to 5000, new product.

Narayan Iyer: We do have about three or four such products which is in the pipeline, which will help us and entail us to take from three to five and some of the other products are being developed. A few products we are looking from the biotechnology space also that could add to the bandwagon in fact and at the research level currently our company is working almost in eight different products. So if the research succeeds on these eight products all in the main space and main segment of the aroma chemicals we then take it up to the pilot level and post pilot is something that we will be going in for the commercial plan. So seeing our trend of the past and how we have been increasing our basket of products as you know Privi from about a couple of products way back long back ago about 25 years ago, today we are almost at 74 different products of aroma chemicals that we are selling. We do expect and keeping that same trend getting about three, four, three, four, new, new products in most of the years it can all click in one year or it clicks in about equal tandem but confidence is definitely there that the R&D team really strives well to ensure that we get newer products and as well as ensure that the yield and process improvement on the existing products also happen about which helps us safeguarding our margins as it has done in this quarter as well as the quarter earlier because if you see that most of the raw material prices there has been a spike. However Privi's margin on the RM to the sales we continue to be at the same level of about 59.6% to 60% you would not see any change though the input costs have gone up it is only on account of the yield and the R&D inputs which helped us safeguard our margins in this year. So to keep it easy, yes we have products on the pipeline and we expect these products definitely to help Privi move from the 3000 what we expect to do in about next three years to keep a vision and make us move steadfast towards the 5000 Crores mark.

Manish Gupta: I had a few other questions but I will come back in the queue to give my colleagues.

Moderator: Thank you. The next question is from the line of Pratik Singhania from SageOne Investment. Kindly proceed.

Pratik Singhania: Hi! Sir, thank you for allowing me to ask questions. My first question is with respect to the growth for this current quarter. So we grew by around 7% Y-o-Y and this was a function of a realization growth. So is it right to conclude that there was no volume growth in this current quarter.

Narayan Iyer: That is correct, this quarter we done a volume of about 7600 metric tons.

Pratik Singhania: And for FY2023 what kind of a volume growth would you guide in terms of the overall business given the new capacities are coming up.

Narayan Iyer: Broadly we expect on the volume front to go up by about close to 15% to 18% growth on the volume, which means I am talking that from the 29432 tons that we have achieved, we may inch towards the 35000 ton mark.

Pratik Singhania: And given the spike in raw material prices so like April and Q1. So basically when we were speaking say after the Russian Ukraine war that what is the status. So it was sounding as if

Q1 would be much painful as compared to Q4. So do we expect this gross margin to have a dent in Q1 given the current trend in April?

Narayan Iyer: Q1 there may not be so much of a dent reason being most of the pine based material that we procure has a very long gestation time of sailing. So it takes about three months to four, four and a half months by the time it is dispatched and it is actually coming to the factory and then from the factory it gets consumed in the production process. So you may see partially getting dent in this quarter because the higher prices of CST which comes about from the dispatches that start happening from 1st of January most of the raw material prices have gone up. All that will start getting effected into my financials more so from May end onwards that there could be partially a dent, but most of the dent may start rolling from the second quarter and we hope that the spot market and the second quarter price revision we will be in a better position to offset the increase in the raw material prices.

Pratik Singhania: And whatever contracts are coming for renegotiation as of now, all those contracts are you trying to do a contract or you are trying to sell now more of on a spot market basis so that most of this freight cost and everything gets settled in that sense.

Narayan Iyer: Pratik no, we normally continue to be in that 65% to 70% of contractual sales and balance 30%, 35% is something which we sell in the spot market because we do not want contingencies to be kept on our volumes also because if in the spot suddenly there is no demand we will be out of business. So we continue with our 65/35 pattern of contract to spot.

Pratik Singhania: Because see logistics and freight cost and all this input cost many other companies have also faced similar issues. But many of them because of their contract is in such a manner or the price hikes is in such a manner that they have been able to protect the margins see given we are into such a niche chemistry wherein we make N minus 6, N minus 8 and in some cases up to N minus 10, N minus 14 as well right. So given that we expect the company to, if not maintain at least to have a lesser dent onto the EBITDA margin. So all these factors like freight cost obviously input freight is not in your control but whatever is a freight towards the output at least over there like you can have some kind of a formula or a pricing which is fair to the client as well as our company.

Narayan Iyer: Pratik noted the concerns we will see how best we could manage the customers and the customers contracts keeping your inputs what you are giving and in fact.

Pratik Singhania: Sure Sir, thank you so much for allowing me.

Moderator: Thank you. The next question is from the line of Dipan Shankar from Trustline PMS. Kindly proceed.

Dipan Shankar: Good evening Sir, and thanks a lot for the opportunity. Firstly wanted to understand during the last call we have discussed about price increase to be taken up during Q4. So what is the quantum of price increase and has that been fully incorporated during Q4 or some effect to be visible in Q1 also.

Narayan Iyer: No, all my multinational companies where we enter into contact that is on the calendar year basis and all such contracts which are started from January 1, 2022, the sale prices that we are doing on the contractual quantities and volumes are with higher prices and these higher prices range between 5% to 8% depending on the segment and the product that each of these customers are looking at and it also differs from customer-to-customer and it depends on the volume of off take from each of the customers that is why if you see if you do an analysis and I have done some analysis because a few investors had also sent me some mails asking for the analytical thing. There has been a prima facie an increase in the price to the extent of 6% on the sales that we have done in this quarter as compared to what average price that we were doing for the first nine months or so. So it means that the increase in the sale price has also helped us to augment some of the higher costs of the inputs where we were able to off take it and getting better prices in fact from the customers.

Dipan Shankar: And secondly are we seeing more disruptions in terms of CST supply and is the prices now being stable or it is still on the rising mode.

Narayan Iyer: So CST prices mostly are all contracted and there is a back-to-back contract in the sense because these CST suppliers basically the CST for them is a byproduct it is not their main product and for them it is a hazardous chemical where they do not want it to be stored too long within the paper mills where this is actually coming out of the paper pulp crushing process. So their main concern is to ensure that it comes out of the process and it goes out of their factory at the earliest. Prices for all the CST that we have entered into contracts, they are more or less firm, it does not change every month or every two months, but it is definitely in place for the six months or one year the prices remain fixed, but yes, as we keep going in for newer contracts because CST contracts are not fixed that it will only be happening 1st of January or 1st of April or 1st of July. It happens depending on the tender floated by most of this paper mills to various CST consumers across the globe. So this can start any time, it can start in May, it can start in July. So we keep bidding for these contracts and at the time of bidding the contract is when we know what the current CST prices looks like in the market and accordingly we bid basically based on the market conditions then. As far as CST disruption is concerned now the Caspian Sea or the sea on the Scandinavian countries is open for movement of the goods apart from the essential goods which I was happened to see in one of the few investors when I had some investors meet. So now it is open we feel that the so-called CST flowing from the Scandinavian countries to India that situation could improve. Having said that all this is anyway appearing in my goods in transit. So we as in Privi have not been really affected because of the war as we have a good amount of inventory of the CST both from the Scandinavian countries as well as from US and Canada.

Dipan Shankar: So lastly this increase is expected in the CST prices. So mostly will see the impact from Q2 to Q3 or Q3 itself.

Narayan Iyer: That is correct Q2 and Q3.

Dipan Shankar: Okay sure Sir. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Chintan Patel from Satco Capital Markets Limited. Kindly proceed.

Chintan Patel: Yes, Sir, thank you for the opportunity. Our topline declined by 4.5% on a sequential basis what is the reason behind of the subdued topline numbers.

Narayan Iyer: It is a decline you are saying over last year.

Chintan Patel: On a sequential basis, on a quarter-over-quarter basis in Q4 FY2022.

Narayan Iyer: Okay you are talking about Q3 and Q4 is that what you are trying to tell me.

Chintan Patel: Yes.

Narayan Iyer: That is basically because post the war getting declared most of the Europeans have really not been taking in the volumes and spot market also it became a little bit wait and watch sort of a situation and as you are aware that Latin American economy is really getting worse day in, day out. So it was also a conscious decision on our part not to supply too much of materials to the Latin American markets especially Argentina as an economy as all of you are aware is completely bankrupt and is really on the verge of a huge inflation and we found that even the Europeans who normally take in a little bit extra volumes during this period now there has been a dip as far as basically on account of after the war coming in we find that their off take in the month of March has been much lower. So these are some of the reasons for the last quarter sales coming down and one more reason is that the company has migrated from an Oracle system to an SAP system. So in the month of March the last five, six days we actually closed the system a little earlier for smooth migration from Oracle to SAP. So that could also possibly have led to the reduction in the overall sales from Q3 to the Q4.

Chintan Patel: And the second question on the finance costs. Our finance cause shot off from 186 Crores in Q4 FY2021 to 8.3 Crores in Q4 FY2022. So how it will move going forward. How it will look like going forward.

Narayan Iyer: Well the finance cost going forward will look into this sort of an average only reason because our utilization on the working capital front has jumped off from about 200 odd Crores as on March 2021 to close to about 450 Crores which is what we had also envisaged and captured on a steady state of going concern basis business in fact and secondly a part of the term loan which has got capitalized or which is getting capitalized that will also come into the interest cost expenditure once the two main products Galaxmask and Camphor the Capex amount which is lying in the CWIP that gets capitalized in this quarter. So the entire term loan interest will also start coming and hitting it into my P&L so you could possibly see an overall finance cost starting from 2022-2023 as a year in the range of around 55 odd Crores or so.

Chintan Patel: In the next year.

Narayan Iyer: Which next year.

Chintan Patel: Should it come at 2024 going forward like next couple of years.

Narayan Iyer: Well it is too early for me to say anything but maybe I will have a better answer or be better prepared in about three to six months time once our existing projects also starts swetting in. Yes, if everything goes the way that we are thinking about you would see interest and finance costs coming down from 2023-2024 onwards.

Chintan Patel: The last question is on the regulatory front.

Narayan Iyer: On what.

Chintan Patel: So can you throw some light on so-called notice from the pollution board, Maharashtra pollution board.

Narayan Iyer: That is a normal routine matter which is happening I do not know how this media people made it into a big issue honestly speaking. So we have already addressed it and we have responded to the said notice that we have received so it is absolutely a day-to-day routine affair. So it is not as serious as made by the media channels.

Chintan Patel: Okay thank you Sir.

Moderator: Thank you. We have the next question from the line of Riju Dalui an individual investor. Kindly proceed.

Riju Dalui: Thanks for the opportunity. Just two bookkeeping question, first one is that like if you can share the breakup of volume data for Q4 as well as the entire FY2022.

Narayan Iyer: Breakup in what terms you want to know.

Riju Dalui: Sales and volume.

Narayan Iyer: So volume for the year for 1402 Crores of sales that we have done that volume is 29432 metric tons and for Q4 prima facie it is 7599 metric tons culminating to a sale of about 374 Crores what you see.

Riju Dalui: My question was like can you just break it up by segment.

Narayan Iyer: We can possibly do that also and it will come in our annual report we normally give that is in a space and segment so it should come in very soon, the annual report should also come but broadly if my memory serves me right of the said 29432, pine should be somewhere close to 22000 tons. So that is my main forte and phenol could be about 4500 tons. So these two is broad numbers that I can talk about this is the main strength of Privi we have. Final details maybe if there is a mail send by you then I could give you the exact numbers on that.

Riju Dalui: Got it Sir thank you and the other question was that like could you just confirm that we are talking about 3000 Crores kind of topline by FY2025 given this scenario like what kind of situation, supply chain issues and we have some project that got delayed. So are we still aiming to achieve 3000 Crores kind of topline by 2025.

Narayan Iyer: We continue to do so as I said we are cautiously optimistic and the vision of 3000 Crores continues to be so. So we will be working on that path and our zeal, our passion is to ensure that Privi reaches 3000 Crores at the earliest 2024-2025 is what our dream is, what our Chairman Mr. Mahesh Babani had also mentioned in the AGM address. If the situation is really going to be bad if not 2024-2025 maybe 2025-2626 but achieving 3000 is something which will happen for sure.

Riju Dalui: Great and one more thing you had shared earlier that Q4 FY2022 volume data and can you please share the Q4 FY2021 volume data.

Narayan Iyer: I do not have offhand, sorry Sir in fact I will have to get back into some of my investors presentation but should be more or less the same or maybe a little bit lower than what we did in FY2022. More or less consistent only because even if you see in the quarterly results that has been published so we did a sale of about 3465 Crores or something of that sort in the quarter in March 2021. So if that is so and with the prices being a little lower around that time as compared to this quarter it should be more or less same more or less same I will say that it will not be a big C change.

Riju Dalui: Got it and one more thing just wanted to confirm. It is like earlier in other call you had said that due to the Russia and Ukraine conflict we might have issue of supplying or sourcing.

Narayan Iyer: Sorry could you clarify once again what you are asking.

Riju Dalui: Yes, so earlier you said that due to Russia and Ukraine conflict our raw material sourcing might get impacted if that situation continues for a month and this is actually continuing more than a month. So what is this situation that you are facing right now and what could be the main issue maybe in a quarter later as you said that 90 days kind of that transit that you have for raw material sourcing.

Narayan Iyer: What I had stated about a month or month and a half ago was at that time the entire Baltic Sea region or the Caspian sea as it is also known as where these Scandinavian countries have ports whether it is Stockholm, Helsinki, or Norway, Poland and Russia also sharing a part of the sea that time the entire sea and entire ports was shut for other than essential services. Now what I happened to tell you a few moments ago was that the port operations in these region have started thereby allowing the CST which comes from all these Scandinavian countries namely Finland, Denmark, Sweden, Poland all these countries are now started we have been able to get the ships and get the materials from these countries from where we have contracts on the paper mills and everything on that sort so that CST has started coming in. The availability of vessels remains to be a challenge but at the price we are still able to get those CST into our country, but as you know that from these countries to reach into India there is always a gas station period or a gestation time and that time is something that it evolves to reach Privi or Privi's site at Mahad and hence we have developed a huge storage capacities wherein we stock this CST as a raw material front. The only region from where we find now it could be a little problematic from some other mills in Russia and Ukraine. So we are doing our best to ensure that we try to get more and more contracts from other countries which includes US and Canada apart from the six other countries in Scandinavia and we also trying to source GTO from Southeast Asia and Brazil, Chile, Colombia and all these countries. So definitely we will have enough of CST stock to ensure that our production volumes with regard to the pine based materials we do not falter or we do not have a position of not having inventory or not having CST to manufacture the finished goods.

Riju Dalui: Got it. Thank you for the detailed explanation and best of luck for future growth.

Moderator: Thank you. The next question is from the line of Chintan Modi from Haitong Securities. Kindly proceed.

Chintan Modi: Hi! Sir, thank you for the opportunity. First question is with respect to the sales. Obviously, last year was a little eventful year, but on a normalized basis is there any seasonality on a quarter-to-quarter basis in sales.

Narayan Iyer: No.

Chintan Modi: So when we talk of about 15% to 18% volume growth plus maybe 5% to 6% of price increase so about 20% to 80% kind of a value growth that we might be seeing next year and near-term pressures continuing. You think that this large part of the growth will be recovered maybe in second half of FY2023.

Narayan Iyer: That is correct because this large part of this growth in this year is going to come from the three new products where we have set up a capacity of close to 10000 tons and this is all going to start rolling in from July onwards so I will say even if we start selling something in the spot in July and August and September the production starts about definitely in the main season which is the Diwali season out here and to some extent new year for the western countries definitely there could be some spurt happening around there and six months of window on the new products will also entail me to participate and with some other customers who have quarterly contractual arrangements so I will be in a better position to participate in those quarterly contracts and more so the confidence stems from the fact that we will be in a position to bid for in the month of October, November for the annual contracts of 2023. So the large players or the biggies who believe in annual contracts we will be able to service them in the fourth quarter. So you will definitely see a spurt happening in my revenue on the fourth quarter for the year 2022-2023.

Chintan Modi: Got it and within export sales can you just give us a broad breakup of which are the key regions and what kind of contribution in revenue they do.

Narayan Iyer: About 32% comes from Europe when I say Europe it is all the European countries in fact I said now UK. UK as such only contributes about a couple of percentage or so. The US and LATAM markets if I have to segregate between north and south of the 18% or 19% of my revenue coming in about 12% comes from the North American continent about 6% to 7% comes from the South American continent, 30% of revenue comes from India and balance from Southeast Asia and a little bit from the Middle East.

Chintan Modi: So large part of the revenue comes from Europe basically and we understand that most of the European companies whose manufacturing bases are in Europe are definitely facing a huge pressure in terms of energy as well as availability of gas. So you believe that this demand impact could be much more prolonged for us going more than beyond two quarters also is it possible because I think this is based on some of the commentaries that I get from other chemical companies also.

Narayan Iyer: Yes, if the stalemate continues with regard to the Ukraine and Russian war it could happen that these European countries will definitely face a huge shortage of gas and most of the gas are being supplied by Russia majorly and to some extent by Ukraine also to these countries. So yes it is a difficult position to be in whether it is a European or a company like us or who caters to the European markets.

Chintan Modi: If you look at this quarter’s gross margin we have seen an expansion on a quarter-on-quarter basis and obviously because of freight cost and energy cost on the EBITDA side we are flat at point 12.6% for next year any guidance that you would like to give for a EBITDA margins percentage wise.

Narayan Iyer: Now this is a standard answer that I keep giving to all the investors in all the investor call I know investors and me as a CFO we disagree on that I will once again reiterate that the other income in the books of Privi close to about 32.5-odd Crores or 32 Crores what you see is prima facie on account of the timing differences and the exchange rate differences with regard to the purchases that happens on a particular day and the date in which we make the payment as well as same is the case with regard to the sales also that we follow the customs rate booking whether it is for the imports where as all of you are aware that customs rate when we do a purchase is always about Re.1 higher than the inter-bank rate as on that particular day and when we talk about a sales. A sales customs rate is Rs. lower as compared to the inter-bank rate. So due to which what you see here a culmination of about 25 to 30 Crores every year, every year in fact is nothing but actual Privi’s revenue coming from the working capital operations. So I still maintain that my EBITDA level normalizing this Forex gain what you all are seeing here it is actually not Forex it is an operations money which is actually coming to my books, my EBITDA margin in this year is about

15.8% or so. We definitely will go up may not be immediately in the next two quarters or so but if situation stabilizes going forward what we have all along been maintaining that Privi's steady state of EBITDA numbers should be between 17.5% to 19.5%. So this could be the range in which we will be operating going forward also.

Chintan Modi: Thanks for that, but my question was a little different just if you allow me. The price increases that we have taken is for large part of the business is largely locked for the next one year broadly and this quarter we had benefit in terms of low cost inventory also and that will come in reverse in next couple of quarters. So we have that rate and basically assuming that the freight cost and the energy cost will continue to remain at these levels at least for say next two quarters. You think that despite a sales increase on EBITDA level absolute EBITDA level there could be a growth or it will remain largely flat compared to FY2022.

Narayan Iyer: It could remain a little flattish and probably there could be a dip too.

Chintan Modi: So then probably the bottomline would be clearly a dip because we will have depreciation higher depreciation because of commissioning of Capex interest cost would be higher compared to the current levels because of higher debt also.

Narayan Iyer: That is right.

Chintan Modi: Got it. Thanks a lot for that.

Moderator: Thank you. The next question is from the line of Manish Jain from Moneylife Advisory Services. Kindly proceed.

Manish Jain: Thank you for the opportunity. My question is what is the Capex guidance for the next few years and secondly what is the delay in completion of ongoing Capex and when do you expect the current Capex to come on stream.

Narayan Iyer: The current Capex we expect it to capitalize in this Q1 of 2022 to 2023 and we should be able to see some revenue coming from Q2 a better sense of revenue will come from Q3 and a large part of the revenue on these new Capex will start coming from Q4 as I have been telling that we will be in a better position to sell most of the volume when we enter into long-term contracts with our major customers. Plans for fresh Capex currently we are working out formulating a strategy because Privi always believed in growth. So there are chances that we may take a pause for about six months or nine months see how this new Capex get panned out and based on that we take a call to get into the next Capex mode which is definitely our dream project menthol and which entails a huge amount of Capex and for which Privi's board has approved an enabling resolution that we could prima facie go to the market and raise some equity for the next set of Capex expansions and also to possibly improve its overall balance sheet and reduce the debt from its books in fact so we also understand that as a parameter so we will start working on those lines now that the board has approved and given us an enabling resolution to come out to the market and possibly see what sort of various fundraising measures are available on the equity front and accordingly we get back to the board and come to the shareholders with a final concrete proposal as to what we want to do and what sort of fundraising we will be doing.

Manish Jain: Thank you and all the best.

Moderator: Thank you. We have the next question is from the line of Meet Vora from Axis Capital. Kindly proceed.

Meet Vora: Hi! Sir, thanks for the opportunity. Just wanted to clarify on this fundraise that we have just approved we might be waiting for six to nine months. So what kind of estimated Capex or the fundraise that we are doing and what is the estimated timeline for this coming into the market for this Capex because as we are waiting for six to nine months so this will be rolling out in FY2023, FY2024 or how do we pan it out.

Narayan Iyer: Too early for me to give you a concrete answer, but knowing the equity markets and how it functions and the process that is involved including approvals to be taken from the board, the shareholders as well as the stock exchanges and the appointment of an investment banker and all that entire process is as good as running an IPO you can feel that it could take a period of six to nine months time and as I said it is also a time for us to see that the 500 odd plus Crores of Capex that we spend the money on the existing and what we capitalized about a couple of months ago that Capex also starts giving me the return and it starts giving me profits. So it gives me that much more confidence to come to the market and to raise the money because it is always better to raise the money when the company is really doing well and all past Capex's are actually sweating in full flow. So I will definitely revert back to all the shareholders as and when something comes concretely but it is now time for me to start doing the homework meet a lot of people and get into some sort of a table which gives me a clarity as to what sort of fundraise and what costs and what price everything gets evolved.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Kindly proceed.

Aman Vij: Good evening Sir. My question is regarding what kind of volumes do you think we can achieve in FY2023 in Galaxmusk, Camphor and Prionyl respectively as well as if you can briefly talk about the demand supply scenario in camphor.

Narayan Iyer: What we are budgeting in to sell of the said 10000 tons of all volumes put together for the first year we have been very, very, very cautious of just about putting into my budget or the business plan once again approved by the board yesterday a number of only about 20% of the volume that is 2000 tons is what we are proposing that we could sell though it could be higher of it. So this is the additional tonnage that may come from the new products in the year 2022-2023. As far as the camphor demand is concerned camphor demand has really increased because of this ongoing pandemic not just in India because India use camphor a lot for religious functions and religious purposes but now the entire world is also using this as a measure to keep COVID at bay or something that I said apart from which of course the pharmaceutical applications and industrial applications continues to be so. Camphor is growing and the market for camphor is growing almost about 8% to 1% in the last couple of years we expect this growth to be maintained going forward also in the next couple of years and that is the reason that we have also set about camphor of almost close to 5000 tons.

Aman Vij: If you can split 2000 into camphor and Galaxmusk that is it from my side.

Narayan Iyer: Almost equal I will say that it could be about 1200 and 800 or so broadly.

Aman Vij: 1200 towards musk or camphor.

Narayan Iyer: 1200 towards musk and 800 towards camphor.

Aman Vij: Sure Sir that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Kindly proceed.

Aashish Upganlawar: Part of my question was answered, but I believe you have not finalized the equity quantum that you would be liking to go to the market for raisin, is it right.

Narayan Iyer: Correct.

Aashish Upganlawar: But ballpark any idea that you can give, I mean, you know your requirement for the next one year probably.

Narayan Iyer: It is not just as a requirement of one year maybe it is a requirement for three to five years. So as I said there are a lot of parameters to be evolved or to be understood before I could say that this is the amount that I am looking at or something, if I do, very difficult to estimate, but it could be less than or equal to 10% to 12% of the equity dilution that is something that I can talk about.

Aashish Upganlawar: `One more thing in the initial remarks I missed on the disruption probably you said that you lost some part of the production because of some issues was it relating to last quarter Q4.

Narayan Iyer: No, it was related to the flood. There was a flood in the entire Kokand region and Mahad our entire factories was, so our factories were affected because of the flood water coming in, that was what I was trying to say. So what numbers you see is more like a 11 month number rather than a 12 month volume sale.

Aashish Upganlawar: But this quarter is normalized, I mean, there is nothing…

Narayan Iyer: More or less yes normalize.

Aashish Upganlawar: Sure thank you.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Kindly proceed.

Anirudh Shetty: Thank you for taking my question. It was around the debt level. So I understand that this year the net debt to EBITDA would be slightly elevated because our debt has gone up so and our EBITDA has reduced, but if you look at 2023 where do we see our net debt in absolute levels and net debt to EBITDA settling at.

Narayan Iyer: It could come down because we expect the revenues from the new products as I was just trying to talk about and as the revenues improves and we start getting margins from the new products in addition to the full capacity sale of our existing products. We expect the overall debt as we also have some repayments of the term loans that we had availed in the past, it should come to a level of almost equal or to the equity because for the very first time that in Privi's history also the debt to equity has gone above one. Are you talking about debt EBITDA or debt equity.

Anirudh Shetty: So I was looking at debt to EBITDA.

Narayan Iyer: Debt to EBITDA will come down in the coming year because either we expect better EBITDA margins to come about the revenues to grow almost about 25% on what we have been able to achieve broad numbers I can talk about. So when those sales and starts coming into the revenue front and into our financials the EBITDA improves and debt will remain more or less same or it could reduce as I said because of better churning of the inventory and managing the debtor cycles also it you could see from the high level of 3.82 that it is as on March of 2022. It may come to a sub 3 level by March 2023.

Anirudh Shetty: And our cost of borrowing I saw was around 4.7% for 2022, if I just take the cash financing costs and I take the average borrowing for 2022 and 2021. I just want to understand what is the breakup of this because it seems quite low. So just want to understand are we getting any kind of low cost debt in the mix.

Narayan Iyer: See we are an export house so prima facie a huge amount of borrowings are from the foreign currency money and foreign currency interest rates are lower than what it is on the INR front and even as far as the INR front is concerned we got very good rates for most of the banks very, very competitive rates in fact because banks are happy with the overall rate which we also have been maintaining our relationship with them have been servicing all their debt obligations on time without any failure. So that is the reason that they do not mind giving us loans at very, very competitive prices because my ratings also are pretty good.

Anirudh Shetty: Thank you for taking my questions.

Moderator: Thank you. Ladies and gentlemen the management would take one last question. The next question is from the line of Praful from BPS. Kindly proceed.

Praful: Thank you Sir for taking my question. My question is around the fixed assets like the capacity we have currently and our aspiration target of 3000 Crores in three years time. So the question is that if I look at the current fixed assets including the work in progress it is around 1100 Crores odd and the fixed asset turn like typically ranges between 2 and 2.2 x so if I assume the same asset turn it will take us to around like 2200 to 2400 Crores. So my questions like is that does that mean that there will be some additional Capex to reach that 3000 Crores target in coming year.

Narayan Iyer: Possibly there will be a little bit of Capex on some of the existing products our main products in the pine space for us to reach the 3000 Crores mark. However having said that what you are looking at 1100 is more like a WDV basis a written down value gross block whereas when we look at an asset to turnover ratio we look at a gross block in fact my gross block is somewhere closer to the 1400 Crores mark.

Praful: Okay got it Sir thank you very much.

Moderator: Thank you. Ladies and gentlemen the management that was the last question. I would now like to hand the conference over to the management for closing comments.

Narayan Iyer: Thank you. So just as a parting remark 2021-2022 has been a year of stabilization and maintaining our volumes in the market in the tough times that we have been first and foremost the pandemic continuing and in India it was the second wave that started about from April onwards then we had a flood and subsequently we had another wave of the omicron pandemic know from December onwards but we were able to maintain and sustain that onslaught and finally by year end we had the war which is still lying loom and looming over us and not to forget the problems of China and increase in the raw material front and the coal front and freight prices is remaining to be high Privi continues its zeal on performance and we have been able to post a very decent performance in this tough times also and we hope and going forward with the three new products that we want to start selling and the Capex almost getting completed and projects being put to use in this year-end Privi will be in a much better strength to perform to the best of the investors liking and we will be strong and we will continue and look at the vision of achieving 3000 Crores very soon in the next three, three and a half years. On that front thank you very much have a great day and be safe god bless.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of Asian Market Securities Private Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.