Jubilant Ingrevia Limited

Q2 & H1 FY22 Earnings Conference Call Transcript
October 19th, 2021

Pavleen Singh Taneja: Good evening, everyone. Thank you for being with us on our Q2 & H1 FY22 Earnings Conference Call of Jubilant Ingrevia Limited.

I would like to remind you that some of the statements made on the call today could be forward looking in nature. And a detailed disclaimer in this regard has been included in the Press Release and Earning Release that has been shared on our website.

On the call today, we have Mr. Shyam Bhartia – Chairman, Mr. Hari Bhartia - Co-Chairman, Mr. Rajesh Srivastava - CEO and Managing Director, Mr. Prakash Chandra Bisht - CFO Jubilant Ingrevia Limited, And Mr. Arvind Chokhany - Group CFO.

I now invite Mr. Shyam Bhartia, to share his comments, please.

Shyam Bhartia: Good evening, everyone. Welcome to the Q2FY22 Earnings Conference Call. With immense pleasure I would like to announce that we have delivered yet another strong financial performance in Q2FY22 and reported our highest ever revenue during Quarter & Half Year ended 30th September, 21.

Supply disruptions from China is coming to our advantage due to which we are witnessing strong demand in most of our products. That is giving us an opportunity to increase our share with global customers. While on the sourcing side, we are having negligible dependence on China.

We are finding unprecedented increase in almost all the input raw materials, fuels like coal and gas and logistics cost. However, our business team is confident to pass on the incremental costs by working closely with the customers.

In our Specialty Chemical segment, we witnessed strong growth across the products led by growing demand from Pharmaceuticals and Agrochemical customers. The Nutrition & Health Solution the demand of Vitamin B3 has been stable, and prices started to increase in Vitamin B3. We continue to work to improve our market share in niche segments like Food and Cosmetics. In Life Science Chemical segment, we witnessed healthy demand from Pharmaceutical and Agrochemical customers resulting in volume growth in all the products.

I am happy to announce that we have reduced the net debt further by Rs. 193 crore during Q2FY22.

Looking ahead, we are excited with the growth opportunities in our businesses and we are fully committed to realize that. We have developed a strong product pipeline using in-house R&D, our technical expertise into various chemistry platforms and long standing relationship with global Pharmaceutical and Agrochemical customers, including innovators. We are prioritizing and investing in several growth CAPEX in next two, three years to launch these products to achieve our growth target of doubling the revenue by FY26 from the base year of FY21.

With this, I now hand over to Rajesh to discuss about the business in detail.

Rajesh Srivastava: Thank you Mr. Bhartia. A very good evening to all of you. At the onset I hope you all and your loved ones are safe and healthy. I would like to welcome you all for joining Q2FY22 quarterly investor call of Jubilant Ingrevia Limited.

It gives me immense pleasure to report a healthy financial and operational performance of Jubilant Ingrevia Limited for the Second Quarter and Half Year ended 30th September 2021. Revenue during the quarter was Rs. 1,223 crore demonstrating a growth of 56% year-on-year driven by 17% growth in Specialty Chemicals, 43% Nutrition & Health Solutions and 84% in Life Science Chemical business segments.

EBITDA during the quarter was at Rs. 202 crore up 44% year-on-year led by significant growth in Life Science Chemicals business segments and also by Nutrition & Health Solution business.

As highlighted by Mr. Bhartia in his speech about the strong demand in most of our products due to supply disruption from China and logistic disturbances, we at Jubilant Ingrevia are fully committed to realize them into our business growth using our long standing relationships and proven track record with global customers.

Now, let me take you through the update on all the three business segments:

Specialty Chemical

Specialty Chemical's revenue grew by 17% year-on-year basis, driven by higher volume across the product segment. Major demand surge was witnessed in Pharmaceutical, Consumer, Nutrition and Industrial end-use segment.

EBITDA remained flat in value terms while EBITDA margin declined due to volatility in price of input costs. Overall demand scenario continues to be strong. Domestic demand also improved due to shift of some of the Pharmaceutical and Agrochemical end product customer from China to India, leading to increased market share. However, amidst the challenging environment, we successfully maintained our global leading positions in Pyridine and its 11 derivatives and in several products improved our market share globally.

Nutrition & Health Solutions

Nutrition & Health Solution revenue grew by 43% year-on-year basis, driven by higher volume and prices and the EBITDA margin were 19.5% during the quarter. During the quarter due to reduction in African swine fever in China, there has been a strong demand of Vitamin B3 (Niacinamide & Niacin). Therefore, we were in a position to place higher volume both on quarter-on-quarter as well as on year-on-year basis.

We also continue to focus on improving our market share in niche segment, like Food & Cosmetic, and we are also focusing to enhance our market share in North American markets. Demand in Animal Nutrition segment remains strong, primarily driven by recovery in Poultry and Aquaculture. We continue making efforts to increase share of our specialty premixes through various initiatives.

Life Science Chemicals

We delivered another outstanding performance in our Life Science Chemical segment, with 84% growth in revenue and 160% growth in EBITDA on year-on-year basis, along with a healthy margin of 13.8% during the quarter.

This superior performance was based on account of favorable market conditions, driven by disruption in Europe and China market driven by force majeure by key supplier of Acetyl products. We witnessed Acetic Acid sharp price increase during the end of the quarter. However, the average price during the quarter were lower in comparison to Q1FY22. Acetic Anhydride demand remained strong during the quarter. We managed to place better volume of Acetic Anhydride during the quarter, both on quarter-on-quarter as well as on year-on-year basis. We also maintained the domestic market leadership of Acetic Anhydride, and increased market presence in Europe, Americas and rest of the world. During the beginning of the quarter demand of Ethyl Acetate was lower, which improved significantly during the latter part of the quarter. Therefore, with respect to better demand, especially during later part of the quarter, we could place higher volume of Ethyl Acetate in India, as well as in Europe on quarter-on-quarter basis. Specialty Ethanol market demand also continued to be strong, which has resulted in higher sales volume on year-on-year basis and is stable on quarter-on-quarter basis.

Growth Plans and CAPEX

Progress of Phase-I of Diketene CAPEX is as per schedule and is expected to be commissioned during the quarter January to March 2022. During the year so far, we have already committed investments worth Rs. 450 crore for following growth CAPEX. At peak capacity these investments are expected to generate additional annual revenue of Rs. 900 to Rs. 1000 crore at prevailing prices.

1. CDMO GMP facility at Bharuch which is expected to be operational during the quarter April to June 2022
2. Three multipurpose plants of Specialty Chemical which is expected to be in operation during the quarter July to September 2022
3. Food grade Acetic Acid which is expected to be in operation during the quarter April to June 2022
4. Acetic Anhydride plant which is expected to be in operation during the quarter January to March 2023

5. Agro Active Phase-I which is expected to be in operation during the quarter January to March 2023
6. Our expected CAPEX cash outflow for the year will be in the range of Rs. 350 crore

Outlook

Demand of most of our products is expected to remain strong in H2. Though input costs are increasing, our business teams are confident to pass on the incremental costs by working closely with customers.

With this, I now hand over to Prakash to discuss the financing.

Prakash Bisht: Thank you Rajesh. A very good evening to everyone. And thank you for joining us on Q2FY22 quarterly Earnings Conference Call.

I would now highlight the Company's financial performance during the quarter ended 30th September 2021. I would like you to recall that the Life Science Ingredients business of Jubilant Pharmova demerged into Jubilant Ingrevia Limited effective 1st February, 2021. And in FY21 our results comprised results only for two months of operations starting from 1st February, 2021. However, similar to earlier quarters to provide the comprehensive picture of the operation of the Company on a continuing basis, the results for the previous periods has been presented on pro forma basis in this investor deck and also during the call by deriving the same from the published results related to discontinued operation of LSI segment of Jubilant Pharmova Limited. The detail in this regard are provided in the investor deck and Note #5 of our published results. And we request you to go through the same.

Revenue from operations during Q2FY22 was at Rs. 1,223 crore as compared with Rs. 784 crore in Q2 last year. Similarly, revenue from operations during H1FY22 was at Rs. 2,367 crore as compared with the Rs. 1,520 crore in half year last year. The EBITDA during the quarter was Rs. 202 crore as compared with Rs. 140 crore in Q2FY21 with margins at 16.5% during the quarter. Similarly EBITDA for H1FY22 was at Rs. 490 crore as compared with Rs. 267 crore during H1FY21. Margins were at 20.7% during H1FY22 as compared with 17.6% for the same period last year.

Depreciation and amortization expenses during the quarter was at Rs. 31 crore. Finance costs during the quarter was significantly lower at Rs. 7 crore versus Rs. 17 crore in Q2FY21, a reduction of 59% YoY on account of repayment of debt and the lower interest rate. The tax expenses for Q2 were higher at Rs. 54 crore on account of higher profits. The cash tax is expected to remain at 17.5% during FY22. PAT during the quarter was Rs. 111 crore as against Rs. 77 crore in Q2FY21. Similarly, PAT for H1FY22 Rs. 279 crore as against Rs. 130 crore PAT in H1FY21.

The Company maintained the steady deleveraging in Q2FY22. Also, the gross debt was reduced by Rs. 193 crore in Q2FY22. Gross debt as on 30th September, 21 stands at Rs. 263 crore as against Rs. 457 crore as on 30th June, 21. The Company's net debt stood at Rs. 193 crore as at 30th September, 2021, a reduction of Rs. 193 crore from 30th June, 2021. Net debt to EBITDA ratio further improved at 0.2 times from the earlier level of 0.5 times as on 30th June, 2021 on the basis of trailing 12 months EBITDA.

During the quarter we also divested our stake in Safe Foods for a consideration of USD 18.2 million, approximately Rs. 134 crore consequent upon its merger with another Company.

With this I would like to conclude our opening remarks. We will now be happy to address any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Jason Soans from Ashika Group. Please go ahead.

Jason Saons: Just wanted some color on the Life Science Chemicals business. Now as we have seen that this business, the margins tend to be a little volatile. So, in 1Q the margins were around 27%, which has dropped to around 14% in 2Q. And I know in previous calls you have spoken about, looking at this segment from an absolute EBITDA point of view. So, just wanted your sense on what are the long-term sustainable margins for this business. And you also spoke about a force majeure event. So, just wanted to know if everything goes back to normalcy, what's the long-term sustainable margin for this business?

Rajesh Srivastava: So, as we have explained in the 1st Quarter in Life Science Chemical business we had certain favorable conditions plus in the 1st Quarter, there was a significant increase in Acetic Acid price vis-à-vis the past quarter of Q4. And we had certain benefits on inventory. So, the 2nd Quarter performance is close to the normal performance, though the prices settled down during the quarter, but at the far end of the quarter Acetic Acid price further went up, as a whole Quarter 2 was more or less a normalized performance. Yes, there is disruption from China, but in any way these products of Life Science Chemicals really do not come from China to India. So, the Indian market is totally dependent on Indian manufacturer. So, more, or less Q2, you can assume is more or less a normal performance.

Jason Soans: And when I look at your gross margin, you have a dip in the gross margins of around 850 bps quarter-on-quarter, when I refer to it. So, the gross margins have dropped 850 bps to around 40.9% in 2Q which clearly points to a rising input costs and you have highlighted that. So, also Acetic Acid prices also fell by 20% in Q2 from around $1200 to around $950 in Q2 average. So, just wanted some color on this as well. I mean, what's the exact reason for such a sharp drop in gross margin of 850 bps?

Prakash Bisht: So, the drop in the gross margin if you would see, there is a raw material price increase which we are passing on, but if you would see that the overall sales price that has gone up when you are comparing it with Q1 it's by 6.9% whereas the raw material prices have gone by 24.6%. So, which is also reflecting in our gross margin. So, mathematically if Rs. 100 has increased and you pass on Rs. 200 in sales price as a percentage when you would see it would come down. So, that is the reason why it is reflecting in the gross margins.

Jason Soans: So, do you mean it will get passed on with a lag, is that what you mean? Will it get passed on? Will it take some time to pass on the increased input prices?

Prakash Bisht: So, what I'm trying to explain you is that in our Life Science Chemical business, when you pass on the raw material price increase in the value of sales since the value of sales as a percentage it would always change. So, it would not always be the linear percentage.

Jason Soans: And my final question would be, I just wanted to know something about the potential for the Pyridine chemistry in India and globally. Now, I understand that you have significant market share and 11 derivatives and significant scale as well. So, just some color on the Pyridine's chemistry in India and I see that the building blocks for Specialty Chemicals start from your Life Science Chemicals business especially being Acetic Anhydride and Ethyl Acetate. So, could you give some color on the potential for Pyridine chemistry and the integration of Life Science Chemicals into Specialty Chemicals and how you could look at growing at that aspect of it.

Rajesh Srivastava: Yes, so Life Science Chemical integration to our Pyridine chemistry is basically we are producing Acetaldehyde in Life Science Chemical which is transferred to the Specialty Chemicals. So, that continuously transferred internally. Now coming to

Pyridine business future as we have explained earlier also that we continue to do value addition in our Pyridine chemistry platform and we continue to add new products in Pyridine derivatives and based on those new product's demand, if you see we are adding three multipurpose plants, because of the increased demand which we are finding from the global market, but off late as we have also seen that some of the production of end products shifting to India is also giving us an opportunity to capture more market share of our Pyridine derivatives. Because of these two trends, we have taken decision to augment our capacity in almost every derivatives which we are producing plus launch the new products which we have developed where the new requirements are coming.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: So, first question is on our Specialty Chemical business. So, I understand this quarter, compared to last year on your pro forma number a lot of growth in Specialty Chemical and other business is driven by the price increases. However, the EBITDA numbers on Specialty Chemicals business looked flat. So, you mentioned that it has been basically the rising input cost, probably which has impacted the EBITDA margins. So, just wanted to understand if you can just quantify the kind of volume growth we have seen in the current year in Specialty Chemical business on YoY basis? And what can be the sustainable margins in Specialty Chemical business going forward?

Rajesh Srivastava: So, we have mentioned that in Specialty Chemicals business YoY we are seeing significant growth but you are right that in the last quarter - Q2, there has been very high volatility in the input prices. And as you know Specialty Chemical business, this is not a spot business always so there is a little time lag to pass on the price increase. But we are very confident that all our cost increase we are going to get from our customer, we are working very closely with customer. But we can only tell you the demand of Specialty Chemicals is strong. And we continue to see a good traction of our volumes in Specialty Chemical business and we are confident to pass on the cost increase which we are seeing, of course this is very volatile, but we are very focused to pass on this cost increase.

Rohan Gupta: 17% Specialty Chemical business revenue growth YoY, would it be possible for you to share the price lead growth and the volume growth for the quarter?

Prakash Bisht: Rohan, majority of this is volume led.

Rajesh Srivastava: In YoY we have seen both volume growth as well as price growth.

Rohan Gupta: So, it is not that only price increase 17% there has been some volume growth angle also.

Rajesh Srivastava: Yes, absolutely correct.

Rohan Gupta: Because of what we have seen that definitely the commodity chemical I mean, the input prices Acetic Anhydride, Ethyl Acetate all those prices have gone up sharply. So, what it looks like that Specialty Chemical, all the growth is only coming from the price lead, but you said that it's driven by both volume as well as price. So, I take that.

Rajesh Srivastava: Absolutely, if you see year-on-year, there is a volume growth significantly in Specialty Chemical along with the price increase.

Rohan Gupta: So, it means that there has been volume growth, but Specialty Chemical EBITDA on YoY have not increased. So, it's only that the price increase will come with some lag. So, we expect that going forward in the second half there should be margin improvement should get reflected in Specialty Chemical business. Am I right?

Rajesh Srivastava: We really can't comment on margin percentage, but definitely on absolute EBITDA, we should do consistent performance definitely.

Rohan Gupta: Second question is on the Life Science Chemical business. So, you mentioned that definitely and also in your opening remarks, you mentioned that in general, we are benefiting from the current situation emerging from China, I think that you referred to the power crisis in China. We are not much dependent as far as the raw material is concerned coming from China, but we benefit from the end product pricing.

Can you just share a little bit more on that, how is the current scenario and we have seen that Ethyl Acetate and Acetic Anhydride prices are continuously moving up. So, if you can just give in a current scenario, in a current month the prices and we are also seeing the Acetic Acid that is a key raw material for us there also the prices have started moving up significantly. So, if you can share a little bit more on that how will be impacted in the spread of our Life Science business in the current quarter or in the current scenario?

Rajesh Srivastava: Yes, so in Life Science chemical business as you very rightly said, we have no dependence on sourcing part from China. But you are right that the only impact we find because of China's disruption is on the prices of Acetic Acid. And as and when there has been disturbances in the global market and production in China, this price of Acetic Acid has been volatile which we all are experiencing. But other than this price of Acetic Acid the volume growth and volume demand of Anhydride and Ethyl Acetate is absolutely not because of China disturbances. Volume growth is a very normal growth which we are finding in India for Anhydride and Ethyl Acetate both which we have mentioned earlier also in the call, that we had taken a decision to add capacity of Anhydride because of the demand growth in India as well as global markets and nobody else is adding capacity.

So, except for the fact that Acetic Acid price will be volatile based on the global environment, the demand of Anhydride and Ethyl Acetate will be continuing to be strong because that is depending on various end product demand which is in India as well as in outside India, but not depending on China. So, if Acetic Acid price changes just like if price goes up, obviously because we are a large producer we gain in terms of our overall profitability.

So, that is the only change which happens from this disruption. As the market demand is all actually very sustainable and that's the reason we have taken a decision in the past to add capacity. We have also taken a decision to add one more capacity which will be coming up in the FY23. I hope I have clarified that.

Rohan Gupta: My other question is on our long-term strategy and especially the new chemistry which are going to be commission in Q4FY22 of especially in Diketene. If you can, Q4 is just only a couple of months away from here. So, just wanted to understand how you see the customers engagement with the Company in terms of, I still believe that there is still restriction on global travel in that kind of scenario do you see that the customers are still able to audit the plant? And when we commission our Diketene plant in Q4 there will be significant ramp-up immediately in that plant or because of the pandemic issues we will see some delays in commissioning of those plants or ramping up of those plants?

Rajesh Srivastava: No, I can tell you very clearly there is absolutely no impact of pandemic with respect to the delay in commissioning of the plant. We are almost close to start commissioning our Diketene plant. So, I don't think there is going to be any further delay on that.

On your point of customer engagement even during the pandemic, our customer have been doing audit virtually. So, most of the customers in India know us, they have visited our sites in the past. So, if they are not visiting for last six months or one year, they are not worried about our situation on quality and compliance. Just with some virtual audit they are okay. Most of these customers for your information are already our customers. So, you name any Agrochemical or Pharmaceutical customer in India, we are supplying 1, 2, 3 or 4 products to them. So, for them to approve us for a new product like Diketene is not a big challenge because they know Jubilant, they have already experienced us supplying very high quality and very chemistry driven products in past. So, I think that's not a big challenge.

And with regards to demand situation we have already mentioned in the past with regards to Diketene, already there is an import volume happening to the tune of 15,000 to 16,000 tonnes on annual basis. So, the volumes which we are targeting in Phase-I should not be challenging for us to place as quickly as possible.

Rohan Gupta: So, I completely agree with your point in terms of clients, the profile of the client doesn't change much because we have already been engaged with them, but my whole point was because we are getting into new chemistries and the new products based on the Diketene and the new chemistry. So, I understand though definitely we have a proven track record in Pyridine and value added in Pyridine but definitely still getting into new chemistry so probably customers wanted to see on a sampling basis or on a trial basis definitely wanted to do the trial runs with us when we are getting into new product so just wanted to get more comfort on that which you already clarified that it is going as per the schedule. With that proximity of the completion of this Diketene in just next quarter can you give some sense that from the current customer engagement and the kind of product approval which would have already happened so far now, what kind of additional revenues you can expect from Diketene in new chemistries in FY23.

Rajesh Srivastava: So, FY23 We are very confident to place our capacity which we are building up because we plan to have Phase-II startup immediately after we finish the commissioning and place the volume for Phase-I. So, we are very confident that FY23 we should be in a position to place our capacity whatever we are building up. And we have planned very well in terms of product wise, customer wise where we will sell. So, FY23 we will be in a position to place our volume which we are going to produce. And the capacity for this particular Phase-I we have already told you it is in the range of 6,000 to 7,000 ton which we are also looking at how to de-bottleneck it further to see if we can increase it further. So, we are working on that.

Rohan Gupta: So, out of the roughly 30,000 to 35,000 tonnes market in the Phase-I we are already going to have roughly 7,000 that's almost close to 20% market share we are targeting just in the first year itself of the commissioning of the Diketene plant right?

Rajesh Srivastava: Yes but that's easily possible, because import is happening for these products, and Jubilant is well-known, for its quality. Nobody wants the hassle of import every time and we can supply on time plus you are reading about anti-dumping duty on some of these products so all those hassles looking at those customers are happily looking forward for our products. So, if it was any other thing, then probably we could have discussed that. But here I don't think that should be a challenge.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Three questions from my side, just wanted to get a sense on how your contracts are generally structured with your customers in the Specialty Chemicals business. Are they take or pay or in terms of pricing, in terms of volumes? Just to get a sense in terms of your ability to eventually, regain the north of 20% EBITDA margin territory.

Rajesh Srivastava: So, most of our products in Specialty Chemical particularly the Fine Chemicals and Crop Science Chemicals, in domestic market, we work on quarterly basis, right. So, we agree on a quarterly price and quarterly volume. On export specifically in Europe and U.S., the customers are asking us to commit volume for annual basis and also price on annual basis. But obviously, with those customers, we have an understanding that there are significant increase or decrease in pricing they are considering our request to really revise that. And that is the reason it takes little time lag to get into the revised pricing based on the impact of raw material price. But we don't have any take and pay type of contract with any of our customers in Fine Chemical, Crop Science Chemical, or even in CDMO. So, CDMO is mainly the campaign based annual order and annual price, which is more or less, we commit on campaign basis. So, I don't think we have any take and pay situation in any of our products in Specialty Chemical.

Tarang Agrawal: My second question, if I look at your industry end-use split about Rs. 245 crore of your revenue is from customers operating in Nutrition. When I look at your Nutrition & Healthcare business segments split, the revenues are about Rs. 179 crore. So, there is a balance of Rs. 66 crore of revenue that is coming from either the Life Science Chemical or Specialty Chemicals business. So, if you could give us some granular sense on what products are these and which of Jubilant segments is this Rs. 66 crore revenue attributable to?

Rajesh Srivastava: So, we have some of the Specialty Chemical products which are used by the Nutraceutical industry. So, they are used as the precursor of ingredients, which are Pyridine based. So, we have those products which are also going to Nutrition market. And that's why you find that percentage there.

Tarang Agrawal: And my final question, you have gotten significant traction in your North America and ROW geographies if I just compare them on a QoQ basis. My sense is that it has to do everything with your Specialty Chemicals and the Nutrition business would that be accurate?

Rajesh Srivastava: Yes, Specialty and Nutrition are major but in ROW, we also have Life Science Chemical partly. But mainly you are right, mostly it's Specialty and Nutrition.

Moderator: Thank you. The next question is from the line of Vineet Gala from Monarch Networth Capital. Please go ahead.

Vineet Gala: A lot of my questions have already been answered, but if I can push you on one more question on Acetyl, I just wanted to understand on the direction of the absolute spreads that is the EBITDA per ton. So, as you mentioned that there has been increase in export prices during the end of the quarter, how do we expect the EBITDA per tonne to behave in the medium term?

Rajesh Srivastava: Yes, so good question Vineet. I think off late I would say last three to four quarters we have seen, because the demand is shifting towards India, particularly on this Paracetamol and Agrochemical and other products on Anhydride and Ethyl Acetate, we have seen the per kilo margin also of our products, improving quarter-on-quarter. It is a very positive sign and we realize that that should be more or less good scenario for future because as you know that we have increased our capacity one and a half year before, we are adding one more. So, we have huge volumes available to service our all the increased demand in domestic market. So, obviously the demand has gone up and we are ramping up the capacity. So, we have seen little bit improvement in our per kilo margins as well.

Vineet Gala: Okay, but just to clarify like I mean the per kilo increase in the absolute EBITDA, wouldn't be in proportion to the overall increase that you have seen in Acetic Acid, right?

Rajesh Srivastava: No that is, when we calculate per kilo, then it is after taking care of that increased price.

Vineet Gala: Right, but like numerically the topline would increase at a much faster pace.

Rajesh Srivastava: Obviously, that's what Prakash was trying to explain that even though our per kilo margins are improving but the topline is improving faster. And that is a temporary phenomenon as you all know, because topline is not only a Acetic Acid price, it is also coal, it is also other raw materials, utility, freight everything, right. So, everything is going up. So, therefore you see the margin impact.

Vineet Gala: My last question is on, if you could throw some light on RoDTEP incentives, so I understand that the rates have not been formally announced, but what is the sense that, what is the benefit that we can get on the consolidated? And also just one clarity as these benefits are going to accrue on a retrospective basis, since the cancellation of MEIS exemption?

Rajesh Srivastava: So, RoDTEP as you know is not still announced for any chemical products. So, whatever MEIS we had to claim, we had already claimed. And some MEIS has been realized in last quarter also as a cash flow. But we had no RoDTEP anything pending now for future.

Vineet Gala: Right, but there would be some rate effective 1st of January, right?

Rajesh Srivastava: We don't know; they have been talking about 1st of September so we really don't know. But yes if it happens, then obviously that will be in addition to what currently we have.

Moderator: Thank you. The next question is from the line of Varshit Shah from Veto Capital. Please go ahead.

Varshit Shah: My question is dialing back to your Life Science Chemicals business issue. See that Q2 performance actually the margins have improved, although the margins sometimes have been lower in that segment. So, it is purely increase in your gross margin related, so the selling price increasing faster than your cost or is there some operating leverage benefit which has also come in, because I think we are seeing some increase in capacities. So, just wanted to understand, is there some significant portion of the operating leverage also playing out in the Life Science business?

Rajesh Srivastava: Yes, you are very right. If you see quarter-on-quarter we are improving on capacity utilization of the new plant. And our volumes have grown, both year-on-year and quarter-on-quarter. And at the same time I explained in my last question that, because the demand is growing we have a situation of better margin in these products so both together is showing a better performance.

Varshit Shah: And one more extension to that question is that you mentioned to I think increase in Paracetamol manufacturing etc. leading to improvement in absolute EBITDA. So, let's say over the medium term, I mean looking beyond six month or even three quarters. Do you think that these kind of improved EBITDA absolute is largely sustainable in a broader range, I mean given plus, minus the normal volatility? Do you think that kind of margins are sustainable on an absolute basis?

Rajesh Srivastava: If you would have asked me this question last quarter, of course, the answer was no, but this quarter we have more or less normalized. But you never know the market situation, but we are confident that in near future at least few quarters things should be stabilizing rather than making further disruption. So, we are looking at market to be more stable. As I said that more or less, more and more volumes have shifted to India. So, the customers are well settled. Unless we see end market disruption very badly, then we can see some changes. But which is not visible at least to us in global market for next few quarters to come.

Varshit Shah: And just one last question, as an extension to that, overall not only Life Science but across as value chain, if I were to see some of the competitors as well as my own reasoning indicate that all these prices should stabilize of most of your products in Q3 itself or probably it has already stabilized. So, actually Q4 onwards the margin should look more stable on a quarter-on-quarter basis. Is that some kind of visibility, you are seeing at least, sitting as on today of course, I mean things are subject to change tomorrow, but sitting as on today.

Rajesh Srivastava: I don't know where you are seeing stabilization of input prices, in fact as late as last week, we are seeing huge price increase in every raw material. So, it is very difficult to say, things are going to be stabilized in next quarter, because what I can tell you is that this disruptions of China which has happened in last two months, probably it is my personal guess and my personal experience is, it may not correct before

December, because they have some plan of Olympics in December/January. And they have given that cut of power and energy conservation in guidance to the country. So, I think three, four months, I don't see big changes. Of course slight correction here and there will continue, but not going back to normal situation in next quarter.

Moderator: Thank you. The next question is from the line of Dhruv Mucchal from HDFC AMC. Please go ahead.

Dhruv Mucchal: My question is related to the Life Science business unit. In the commentary you mentioned that there are some force majeure events for some of the capacities in Europe and China. But given that India is largely, I believe a net exporter for majority of your products in Life Science, so does it have any positive implication for us? And are these force majeure events, what temporary or do you see them as longer time thing.

Rajesh Srivastava: So, I just mentioned about China that because of the energy conservation target and guidance they have given, they also defined certain territories to be red territories. They don't want industry to run after a particular percentage of productions. Because of this the input price as I mentioned in Acetic Acid, is really going to be volatile that is what we are expecting. And but other than that, I think the demand scenario within Europe, India and ROW for our products, are going to be strong. So, that will continue. But yes, the input pricing not only Acetic Acid, but other raw materials also, not depending to Life Science, but there will be volatility in these input prices.

Prakash Bisht: Yes, I think, adding to Rajesh's comment, Rajesh has mentioned that there is a force majeure in one of the European Company for Ethyl Acetate. Therefore the demand for Ethyl Acetate has gone up, both demand and the prices have gone up in Europe.

Dhruv Mucchal: From Ethyl Acetate perspective that becomes a positive because, and the short-term thing which is happening in China adds to that, got it. And the second thing was on your comment that you are not seeing lot of capacity additions in these products. So, is it something which has changed structurally or any particular reason why people are not adding capacities, given that as you mentioned demand is growing. But we don't see lot of, as you mentioned there is not much of capacity addition.

Rajesh Srivastava: The reason of that is that Anhydride and Ethyl Acetate is solely depending on Acetic Acid. And Acetic Acid most of the capacities are available now in China or in South Asian countries. Now there is no additional Acid capacity which has been announced in past or is being announced now, either in Europe or U.S. So, because there is less availability of Acetic Acid, nobody is encouraging to add capacity of these products in Europe and U.S. In fact, it is becoming more and more challenging now, to source Acetic Acid in Europe and U.S. Most of the capacities have come down to this part of the world. And that's where we realized this opportunity and we took the decision to add capacity.

Dhruv Mucchal: So, when I was talking about capacities, so in U.S. and Europe, the capacities are not getting added, but in Asia you don't see that as a concern, I mean, there could be capacity that can come.

Rajesh Srivastava: Other than China and India, there is no one who produces Anhydride in this part of the world. The technology is not available as of now. But you never know, what can happen in future, nobody can say, but not a simple product to add on easily.

Dhruv Mucchal: Lastly, how, just if you can speak something about the Brownfield expansion potential in these capacities, I mean how quick can that can be and is it about adding reactors and producing additional volumes or it's completely different setup, you have to go fully backward and put all the capacity, some thought there would be helpful, just to understand, if the demand continues to supply how capacities can be added?

Rajesh Srivastava: So, this is not like any multipurpose plant or add a reactor or add a column, this is a unique facility which required a very specific technology and Diketene Chemistry. It's a cracking technology, which is not available at many places, not proven by other companies. So, it's not so easy for even, you don't find many producers of such kind of equipment, only those companies who can produce certain technological equipment, they are specialized into this. So, it's not general reactor additional type of plant. It's a good amount of investment, if you see.

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

Rohit Nagraj: The first question is in terms of your long-term guidance, that you have said that we will be doubling our revenues. In that aspect, how much of the incremental revenues would come from new products.

Rajesh Srivastava: So, if you see our new investor presentation we have given that what capacity we are adding up for the new product and what capacity we are adding up from the existing plant. But in terms of our growth project, if you see our growth projects which we have announced, one is Acetic Anhydride which is of course our existing product, but all the multipurpose plant which we are adding up, mostly is for new product addition. So, that will be in this Specialty Chemical business.

Rohit Nagraj: And in terms of margins, so incrementally when we will double the revenues, would the margins be going up or will they remain at similar levels, I mean historical margins?

Rajesh Srivastava: So, if you see our investments we are talking about major investment in Specialty Chemical and Nutraceuticals, right, except one in Life Science Chemical. Now that the major investment is happening in Specialty and Nutraceutical, and in both these businesses our margins are better so obviously going forward on a whole, we can see improvements in margin.

Rohit Nagraj: Just last question on this so, basically we feel that there will be volume growth which will alleviate our revenue profile. And that is primarily as you just said to the earlier participant, that none of these incremental capacities are getting added anywhere in the world. That is a precise reason why we are expecting the growth, so it will be completely through volume site.

Rajesh Srivastava: Yes, so whatever guidance we are giving is based on the volume growth. So, it is very difficult to give a guidance on the price input because that is changing you know because Acetic Acid price is changing every quarter. But yes, even if we are talking growth, we are talking on a current pricing level. We say, if you take current pricing level, our volume will grow double, that's what we are saying.

Rohit Nagraj: And just one clarification, on the force majeure that have happened, any chances of some of these capacities going out of the system or mothballed or these will come back once the situation relatively normalizes.

Rajesh Srivastava: So, we have sought force majeure mainly in China except one in Europe for Ethyl Acetate. In Europe for Ethyl Acetate is more or less a temporary, it will come back. In China also it is not a very long term, but as I mentioned earlier it could be for few months or maybe one quarter or couple of quarters. But after that of course things have to normalize.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: While most of my questions are answered, I just had one clarification with respect to the CAPEX that you are doing. For the three, four projects that you have identified in your presentation even in this call, the CDMO plant, the MPP plant etc., the total CAPEX for this is Rs. 450 crore of which we will be spending Rs. 350 crore this year, just wanted to clarify my understanding.

Rajesh Srivastava: No, so Rs. 450 crore is the CAPEX, we have approved so far, that is the investment. And Rs. 350 crore is the cash outflow in the current financial year.

Alisha Mahawla: Okay, but for these three, four projects that you have identified, there could be a need for incremental CAPEX also, for the timelines that you have identified that they will come on stream in FY23.

Rajesh Srivastava: Now let me clarify, the CAPEX which we have mentioned in our presentation, the value of CAPEX is Rs. 450 crore, part of which we will spend in this year, part of which will be spent next year. But current year cash outflow will be Rs. 350 crore.

Prakash Bisht: Just to clarify it once again, what we have said is over next three years we are going to spend around Rs. 900 crore. So, out of that Rs. 900 crore, Rs. 450 crore is what we have approved, and Rs. 350 crore is our cash outflow overall.

Alisha Mahawla: And just one last clarification, the peak revenue with respect to the Rs. 450 crore that you were mentioning earlier, of Rs. 900 to Rs. 1000 crore, this is excluding the Diketene CAPEX that we are doing, correct.

Rajesh Srivastava: Yes, this is excluding the Diketene CAPEX, you are right.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Edelweiss Securities. Please go ahead.

Bharat Gupta: My question pertains to the Life Science segment, so there like you have a market share of near about 66% odd, so I just wanted to check that with the recent news which is coming on the anti-dumping front on the Acetyl intermediates, so what kind of a benefit it can be having on the pricing front going ahead.

Rajesh Srivastava: The anti-dumping which you have seen is not Acetyl product, it is basically Diketene product. So, there is no anti-dumping which is being discussed in Acetyl.

Bharat Gupta: So, that like on the eight products which you will be entering, so there will be anti-dumping duty going ahead. So, that will be key positive for us, right.

Rajesh Srivastava: So, you are talking about the Diketene derivative which we will be entering in one of the group of product which is arylide there will be anti-dumping duty, you are right.

Bharat Gupta: And in terms of the pricing like that will be domestically consumed or it is also exporting opportunity which would be there, pertaining to Diketene derivatives as well?

Rajesh Srivastava: I think I have answered this question in the earlier question. Most of our volume of the Phase-I, is meant for domestic market. Of course we will explore export market for future, but as you know domestic market is part of product to the tune of 15,000 to 16,000 tonnes, so most of our volume will be for domestic markets, obviously the anti-dumping duty which has been announced, will also benefit us.

Bharat Gupta: And in terms of the newer products which we are entering, so if we look even on the EBITDA pertaining basis, so that will be similar to what we are currently enjoying the Specialty Chemical segment as such. Am I right in my understanding on that?

Rajesh Srivastava: Yes, you are right, in general, yes, I can say, it will be in-line with that. It depends on product to product, again. So, but on average basis, you are right.

Moderator: Thank you. The next question is from the line of Cyndrella Thomas Carvalho from Centrum Broking Limited. Please go ahead.

Cyndrella Carvalho: Just one clarification, if we look at quarter-on-quarter prices, what is the sense that you can help us with in terms of Specialty and Life Science segment. And how do you see this scenario from China and Europe, in region, in terms of supply disruption improving over coming two to three quarters, and would that impact the pricing meaningfully in anyway?

Rajesh Srivastava: So, on Specialty Chemical, because of this disruption and input price increase, we have mentioned earlier also that because the disruption was very fast so we are taking little bit of time to pass on, but we are very confident that we will pass on the price. Having said so, as I also mentioned that the volume shift is also happening to India. So, therefore we are finding the overall strong demand of our product, which is leading to our volume increase and volume related increase, revenue increase. And also because the demand is improving our price is also stable. So, we are in a position to make our EBITDA based on the current demand. But of course that price increase which has happened, input price, we are trying to take that advantage in due course of time.

Cyndrella Carvalho: Would you be able to quantify what kind of inflation on the input price you have seen?

Rajesh Srivastava: I can tell you in some of the products which everybody can see that solvent has gone up almost 150% increase. And some of the products like coal, which has gone up almost 200% or 150% of price increase. So, input price have been very volatile, very unprecedented in terms of number it's very scary and very high number. I don't think we will be right now in a position to have the exact number to tell you, how much has gone up because of input price and how much we are getting in the price increase.

Cyndrella Carvalho: So, as a percentage of raw material basically to our sales, that's what I was looking for with this, but it's okay. On the overall product pricing, in terms of we are emphasizing on volume growth. But what I understand is that current scenario has some disruption advantage from a final product standpoint**.** Do you see that coming back to normalization, given that you expect certain, to come back in China as well as in Europe or at least specifically over coming two to three quarters as you were mentioning in your earlier comment.

Rajesh Srivastava: I am not sure if I heard you very clearly because in-between your voice was gone, but I could understand what you are asking. I don't see in Specialty Chemical we have any situation which is one-time demand increase. So there, I don't see any reduction in future. In fact, if you see the last year same quarter Q2, we had a little positive scenario because we had come out of COVID, in the second quarter, we had some positive scenario last year which has actually normalized this year Quarter 2. So, I don't see anything which we have seen in Quarter 2 which is exceptional or one-time, it's a strong demand which is increasing continuously. I don't think there will be going back on volume reduction in Specialty Chemicals.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Just couple of questions as raw material Acetic Acid is a key raw material for us and it's a very important for our Life Science business. You mentioned that there is not many global capacities coming in Acetic Acid and India and China just remain the key manufacturer of Acetic Acid. So, with the rising requirement of Acetic Acid for you, do you have any plan to go into captive manufacturing of Acetic Acid or you think that enough availability will be there and you will be completely dependent on outside purchase.

Rajesh Srivastava: So, first of all, I will correct, I said there is no additional capacity coming up in Europe and U.S. but in Southeast Asia we have good capacity available and also in China, there have been additional capacities in last two to three years, but operating rates are very low because of disruption in China.

Now coming back to your question on, can we produce or should we produce, yes, we have the technology, we have the capability, and we also have announced that we are starting the Food Grade Acetic Acid. And we are evaluating the option to see if we can produce, but as you know our route of production is from renewable source which is ethanol, not from petroleum route which is what normally people produce. So, therefore, to look at large volume for future we will have to evaluate whether it will be beneficial for long term so that evaluation we are doing and maybe if we see some consistency then we will come back to inform you.

So, we have capability but of course we can't say that unless we are sure that the Acid price in long term will be same, which nobody can say. If we are sure about it, we can obviously we have capability to build on capacity of Acetic Acid. But if price goes down, we don't want to come to a situation where we regret later on. And that's what we are evaluating right now.

Rohan Gupta: And also in the current quarter, the net debt being as good as almost Rs. 193 crore and I believe that in second half the Company will generate further cash, probably looking at debt free balance sheet by the end of the year. Even the last quarter, I mean Q1 con-call you mentioned that definitely Company has already benchmarked the Rs. 950 crore CAPEX that has already been decided by the Board, but there is always a possibility to top it up with a further CAPEX if there are further growth opportunities that the management sees. Just wanted to know and clarify, is there any further thought process in toping up the CAPEX plans, and over in a couple of years, going a little bit more aggressive what you have already planned, given our free balance sheet, debt free balance sheet and solid cash flow generation?

Rajesh Srivastava: Yes, Rohan if you remember in our earlier discussions I have informed you that we have a good pipeline of products further into our system. And looking at the market situation we are going to quickly look at some of the expansion plans to expedite faster, and some could be the repeat like Phase-II of Diketene we will expedite, and we have some new products which we were planning to bring it to next year, probably we will expedite to do it. So, we are working on it, give us some time, we will probably come back at the right time to announce further expansion in our investment.

Rohan Gupta: Just last clarification from our side, on our standalone consolidated number there is a basic difference between the Life Science Chemicals and the EBIT contribution from the Life Science Chemical business, so it seems that on our subsidiary we are incurring some losses, especially in the Life Science segment, given that our standalone and consolidated operation, if you can just give some clarification on that?

Prakash Bisht: So I think, you must see the numbers on H1 basis, so you will get your answer. So, on a quarter-on-quarter basis sometimes there can be some transfer pricing adjustment. But if you will see the H1 numbers, you will see that they are consistent. So, we are not making any losses. Then they get a fixed margin.

Rohan Gupta: Okay, and that is just more of the accounting differences rather than any subsidiaries making loss?

Prakash Bisht: When you will see H1 numbers, they will be consistent.

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

Shyam Bhartia: Thank you so much for attending the conference call. And if there are any further questions, our Investor Relation will be happy to answer and coordinate with our CEO and CFO, for any further clarifications. Thank you so much for attending this conference call.

-End-
